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ABSTRACT

Trade has been an important factor in United States from the 17th century to the present day. The United States was born out of a trade dispute with Great Britain. From the moment the founders first set pen to paper, trade has helped spur U.S. economic growth. This booklet covers trade topics such as policy, perspectives, difference in nations trading, workers rights, barriers, equity issues, consumers outlook, governments involvement, trade disputes, trade impact on the environment, and General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) sovereignty. Concluding the booklet is a glossary and a 22-item list of further readings on trade and related topics. The teacher's guide presents ideas for classroom activities along with a pretest, posttest, and classroom handouts with accompanying answer keys. Goals for students to attain are to understand how trade affects individual daily lives; define concepts relating to trade and economic interdependence; know the different perspectives people have on trade in the world economy; and realize the need for continuing cooperation among nations in order to maintain a balance of trade. (JAG)

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TRADE IS EVERYBODY'S BUSINESS

BY SUSAN A. AARONSON

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Trade Is Everybody's Business

By Susan A. Aaronson

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Acknowledgments

T-shirts are not like bumper stickers. They are meant to absorb the sweat or keep you covered as you exercise, rather than to serve as billboards for one's politics. But when I go out to run in my blue T-shirt with the four-letter word "GATT," I find I cannot avoid a wide-ranging debate about politics, economics, equity, and the future. It does not matter where I run.

In Dallas, the shirt led to a debate over whether foreigners are taking advantage of us. In Centralia, Illinois, it generated a consensus that free markets should stop at the U.S. border. In New York, it led to a discussion over whether trade has led to a decline in the nation's standard of living. And in Arlington, Virginia, the shirt sparked a dialogue about the possibility that trade encourages child labor.

I run a lot, but I cannot run everywhere. Nor do I have enough confidence in my gift of gab to fully debate these issues in a 40-minute, five-mile run. So, with the assistance, encouragement, and editorial expertise of the Close Up Foundation, I wrote this book. I am counting on you, dear reader, to continue the debate about that four-letter word, GATT. It is central to our democracy and our future.

I depended on the kindness of friends to write this book. The Brookings Institution housed me during the writing and research phase. Many staff members, including Henry Aaron, Margaret Blair, Sarah Chilton, Linda Gianessi, Susan McGrath, and Kathleen Elliott Yinug, provided feedback on the ideas in this text and were supportive of the project. The staff of Close Up's Publications Department patiently encouraged me and did a superb job of editing, illustrating, cutting, and highlighting. Cindy Graff Hobson and Chuck Sass improved the many drafts and Judy Myers developed the attractive design. Ellen Frost, most recently counselor to the United States Trade Representative and now senior fellow at the Institute for International Economics, made many suggestions, as did Doreen Brown of Consumers for World Trade and Dan Gardner of the U.S. Department of Commerce. My dear friend Mary Alexander also provided constructive feedback.

This book is dedicated to my husband, Doug Wham, who helps me achieve the goals I set and challenges me to do better. He is always my inspiration.

—Susan Aaronson

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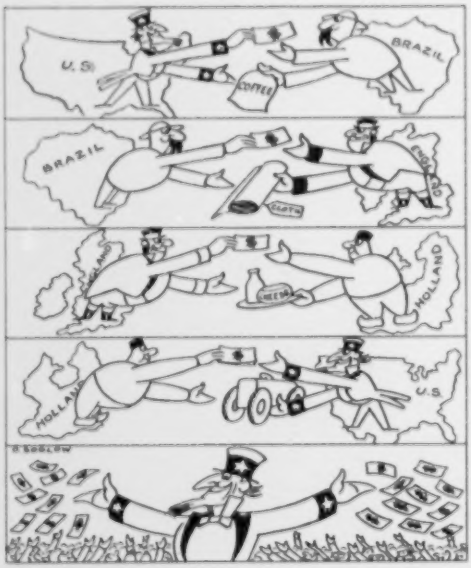
Introduction

Trade Is Everybody's Business

Trade and the development of civilization go hand in hand. No one can produce everything he or she needs—there simply is not enough time in the day. Thus, people band together with others in villages, cities, and nations to make what they need. Nor is everyone equally gifted: Some people have "green thumbs"; others are great hunters; still others excel at eating the fruits of their efforts. Similarly, no country, even the most resource-rich or populous, can produce everything it needs. Although nations trade in differing degrees, they all trade. And no nation trades more than the United States, the world's largest importer and exporter.



Trade has been an important factor in America's rise from a developing nation in the seventeenth century to the world's strongest economy today. In fact, the United States was born out of a trade dispute with Great Britain. From the moment the founders first set pen to paper, trade has helped spur U.S. economic growth. Not surprisingly, American trade policy has always been a subject of considerable political debate.

Today, whether they live in Manhattan, Kansas, or Manhattan, New York, every waking hour of every day, Americans smell, see, touch, taste, and hear goods and services that are traded between the United States and other nations. How they manage the policies that govern trade affects the kinds of jobs they hold, the cost and diversity of the items they buy, and even the health of their economy.

Americans bring differing perspectives to their analysis of trade policy. At any one moment they are simultaneously citizens, taxpayers,

producers, shareholders, and friends of the environment as well as consumers of traded goods and services. Their perspective on trade policy may stem from how trade most affects them. However, their conclusions about trade policy may turn out differently if they examine the costs and benefits of trade from each of these perspectives.

How and When Do Americans Trade?

When Americans trade, they are voluntarily exchanging their dollars for a good or a service. Americans trade because they believe they will gain from this exchange. Thus, when newlyweds fly to Paris on their honeymoon, they have chosen to trade. Whether they fly on American Airlines or Air France, they must exchange U.S. dollars for French francs when they land in Paris. As the honeymooners sip café au lait and nibble fresh croissants and raspberries, they trade the money that they earned in the United States for goods and services provided by the French. The happy couple might have let their money stay home and earn interest at First Hometown Savings. Instead, however, they decided to trade some of that hard-earned cash for a romantic visit to Paris, where they could revel in the smells, sights, and sounds of the "city of lights."

But Americans do not have to fly to Paris to engage in trade. Trade also occurs, for example, when that couple buys a new car. Whether they buy a Ford Mustang or a Toyota Camry (both made in the United States), they have chosen to trade—to give up some U.S. dollars for a new car. Ford, a company headquartered in Michigan, as well as Toyota, headquartered in Japan, use components made both overseas and in the United States. One of these companies is going to benefit from the purchase, and the consumers are going to take pleasure in driving their new car.

Viewing Trade from Differing Perspectives

The newlyweds were not the only beneficiaries from this trade of cash for a domestic or imported car. To varied degrees, the workers, executives, suppliers, and shareholders of Ford or Toyota joined the consumer in the driver's seat as beneficiaries of trade. However, some Americans can also be harmed by trade.

For example, although a U.S. company invented the video cassette recorder (VCR), Japanese companies such as Matsushita (Panasonic)

and Sony soon began to excel at producing VCRs for world markets. By the mid-1980s, no U.S. company was making VCRs in the United States. The American employee who once worked to produce VCRs may disagree with the trade policies that permit such imports. And in the face of unemployment and economic dislocation, this worker's neighbors may share that conclusion. Such workers and the communities in which they live may want the government to follow a trade policy that they believe will protect their jobs and companies.

By contrast, workers and communities that benefit from the importation of foreign-made VCRs may oppose a policy that restricts imports to protect U.S. companies. Many Americans unload the ships that bring the imports, drive the trucks that take the imported goods to a business, and sell the imports in a retail store. These people owe much of their livelihood to the financing, importation, distribution, and sales of foreign-made goods and services.

When Americans purchase goods and services, they are making trade policy decisions. Consider a fan who goes to a U2 concert at the Meadowlands Stadium in New Jersey and decides to buy a T-shirt commemorating the tour. One table has $8 T-shirts made in India, where workers may earn the equivalent of a dollar an hour. Another table has $12 T-shirts made in New York, where employees make $4.25 per hour (the minimum wage). If this fan and many other fans buy the cheaper Indian T-shirts, the New York producer loses revenues. If the New York T-shirt company cannot recoup those losses with other T-shirt sales at Pearl Jam, Bonnie Raitt, Barney Live, or Frank Sinatra concerts, that company may be forced to cut costs and lay off employees. If those employees lose their jobs and cannot find new ones, they may go on welfare, thus raising costs to taxpayers. This job loss can lead many Americans to wonder if low-priced foreign-made goods have unseen political, social, and economic costs to the United States.

But at the same time, the U.S. dock workers, truckers, importers, distributors, retail executives, and sales clerks that handled the imported T-shirts benefited. Many Americans benefit from other jobs related to exports. When U.S. movies play overseas, when U.S. software is exported abroad, when the U.S. rock band Hootie and the Blowfish tours in Australia—these are all U.S. job-creating exports. These Americans also work hard, pay their taxes, and serve their communities.

The Dilemma for Citizens. Opinion about trade policy is also affected by a person's vision of what government should be responsible for and how it should carry out its responsibilities. For example, many of the computer chips that help run U.S. toasters, cars, tanks, and airplanes are made in Japan and other foreign countries because

Some Americans think that the U.S. Department of Defense should not have to depend on foreign-made computer chips to run the high-tech weapons systems used by its armed forces. The B-2, or Stealth bomber, shown here, is the most sophisticated of America's defense hardware.

the United States does not efficiently produce large quantities of low-memory chips. In December 1987, the Defense Science Board—an advisory committee to the U.S. Department of Defense—warned the department that the Pentagon's dependence on foreign computer chips was reaching unacceptable levels.

Committee members asked military planners: Can you count on Japanese producers to sell the military the computer chips it needs to keep its tanks rolling and planes flying in times of war? From the taxpayers' perspective, it may make sense in the short term to rely on foreign suppliers, but the same taxpayers may also recognize that such dependence could affect long-term national security. Moreover, trade policy may not provide the most effective policy solution: policymakers could decide to stockpile chips or subsidize U.S. chip producers. As this example illustrates, by weighing import policies from the perspective of the taxpayer and citizen as well as the consumer, Americans may reach quite different conclusions about the costs and benefits of trade and whether trade policy tools can provide the best policy response.

Trade Policy Is Not Only Economic Policy

Although trade is an economic activity, trade policies are not simply economic policies. Trade policy can affect and is affected by other policy objectives. In the earlier Indian T-shirt example, trade policy and labor policy may need to be coordinated. Policymakers could provide assistance and retraining for those workers who lose their jobs as a result of foreign competition. In the computer chip example, technology and defense policies may need to be coordinated with trade policy. Other government policies may affect and be affected by trade policies as well.

For example, the problem of illegal drugs highlights how trade may affect the achievement of other policy goals. Many Americans would like to reduce imports of illegal drugs such as cocaine. Since the 1980s, part of the U.S. drug policy has been to encourage cocaine-exporting nations such as Peru and Colombia to produce alternative

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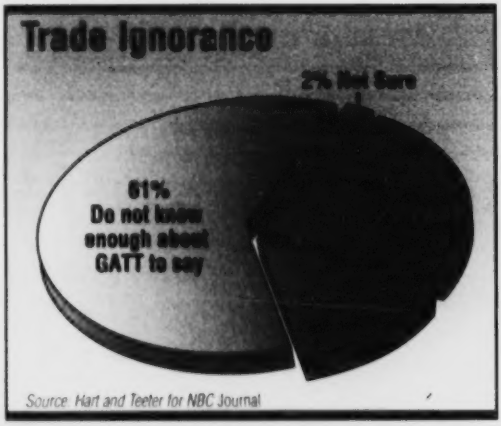
crops for export. This approach can only succeed, however, if it is bolstered by a U.S. trade policy that is open to importing Colombian and Peruvian products to take the place of cocaine exports.

Trade in the 1990s

With the end of the Cold War, trade has become a major policy issue. As nations became less concerned with the spread of communism, Americans began to pay more attention to their nation's economic future. In the 1990s, trade became front-page news and trade negotiators turned into major political figures. The North American Free Trade Agreement (NAFTA, which reduced trade barriers among Canada, the United States, and Mexico) and the General Agreement on Tariffs and Trade (GATT) became household terms. To better understand the GATT, some history is helpful.



While trade is important to the lives of most Americans, they seem to know little about the subject. When asked if Congress should approve the latest GATT, nearly two-thirds of Americans polled said they did not know enough about the trade agreement to say whether they approved or not.

The GATT and the WTO.

Although the GATT may seem new to many Americans, it has been around since 1947. That year, the United States and twenty-two other trading nations met in Geneva, Switzerland, to negotiate trade barrier reduction and rules to govern trade. The result of their negotiations was called the General Agreement on Tariffs and Trade, or GATT. The GATT was never a formal international institution. It was simply a temporary multilateral agreement designed to provide a framework of rules and a forum to work out trade barrier reductions among nations. It operated like a club: Nations that wanted to join were willing to meet and negotiate the reduction of trade barriers such as quotas and tariffs.

In 1994, this "club" finally became a formal international organization. A week after the U.S. Congress approved the eighth round of GATT trade liberalization talks since 1947--the Uruguay Round, so named for the nation that hosted that round--President Bill Clinton signed the legislation to implement it. This round created a new

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World Trade Organization (WTO) to replace the GATT. The WTO provides a permanent arena for member governments to address international trade issues. It also oversees the implementation of the trade agreements negotiated in the Uruguay Round. As of 1995, the WTO was made up of some 123 member nations, but several of the world's most important trading nations—including China—are not yet members.

Twenty Minutes Before School

I woke up, alerted not only by the cries of Atticus, our alley cat, but by the shrill alarm of my General Electric alarm clock made in Hong Kong. I sprang out of bed and headed downstairs to get the Mexican-made Proctor-Silex coffeemaker ready. As I filled the machine with coffee imported from Colombia, my 3-year-old brother screamed that he wanted out of his U.S.-built bed. He climbed out and tossed his U.S.-made J.P. Stevens sheets, decorated with Bert and Ernie—the U.S.-created characters from Sesame Street*—to the floor. He then demanded orange juice. After bringing him the juice—a mixture from Florida and Brazil—he promptly yelled that he did not want to go to his Montessori (a teaching approach imported from Italy) preschool. Instead he wanted to go to Paramount's Kings Dominion (a U.S.-owned amusement park). After telling him we both had to go to school, I stumbled back to the kitchen to fix my breakfast.*

I turned on the radio. Madonna, born in Michigan, was singing a song about playgrounds for a movie about baseball titled A League of Their Own, *made by Columbia Pictures. Columbia, once owned by Coca-Cola, is now owned by Sony, the Japanese company that brought Americans the "Walkman" portable stereo.*

Meanwhile, my little brother screamed that he wanted to eat breakfast with his stuffed animal, a Thai-made facsimile of the Lion King. He poured his milk over his Wheaties—a cereal made in Michigan. Then he tried to feed the Lion King sesame crackers made in Israel topped with British orange marmalade. Not surprisingly, the stuffed animal did not open its mouth.

I ran out to get The Washington Post *and* The New York Times*—newspapers written and printed in the good old U.S.A. by two venerable U.S. companies. It was a cold morning and the delivery person had somehow wedged one paper under the front wheel of my mom's Honda—a Japanese car made in Ohio. Trade, the baseball strike, and the weather were in the news. A few days ago, the top headline of* The New York Times *had read, "President Imposes Trade Sanction on Chinese Goods, Billions in Tariffs." Today, the top headline in* The Washington Post *was about baseball ("Clinton Seeks Intervention on Strike") but immediately below that article was a headline that read, "U.S. Presses Ahead with China Trade." While scurrying wildly to get dressed and find my Nike sneakers (made in South Korea), I wondered why the United States was pressing ahead with China trade if it was imposing sanctions on China. Maybe my teacher would be able to tell me.*

While the GATT was an agreement, the WTO is an organization. The WTO is not simply a "new and improved" GATT. As was the case under the GATT, panels of expert representatives from different nations will weigh trade disputes, acting like mediators. But unlike earlier GATT panels, WTO panels have to adhere to a strict time schedule. Moreover, in contrast to the old GATT procedure, no country can veto or delay panel decisions.

AP/Wide World Photos

Each year, U.S. companies export billions of dollars worth of American goods to foreign countries, and American consumers spend billions on foreign-made products. Trade allows the United States to export the goods it produces most efficiently and to import products made more efficiently by foreigners or products that Americans do not produce (such as coffee).

Public Understanding. Up until very recently most Americans knew little about trade policy despite its growing political, social, and economic importance. Why? People living in the United States produce so much of what they use and use so much of what they produce. As a result, they do not pay much attention to trade policy. In contrast, many other nations depend on a high level of exports for economic prosperity and on imports for vital goods and services.

However, in the last two decades, the American economy has become increasingly intertwined with the world economy for several reasons. First, although the United States is self-sufficient in many areas, the nation imports many goods and services. Some of these imports are necessities; others are luxuries. Second, although most Americans are not directly employed in importing or exporting, many of the new high-paying jobs in the United States come from its growing exports. According to the 1995 *Economic Report of the President*, exports have been responsible for one-third of the U.S. economy's growth from 1986 to 1994. By 1994, U.S. exports supported almost 12 million U.S. jobs that paid approximately 15 percent more than the average U.S. wage. These exported goods and services stimulated competition and innovation and reduced the economy's reliance on foreign capital.

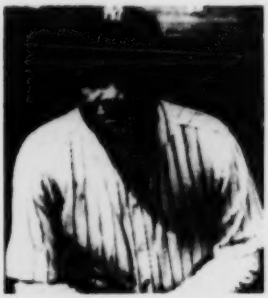
Imports are also important to the economic growth of the United States. Imports help keep prices low and broaden the supply of goods and services available to consumers. Not only do imports employ Americans engaged in distributing, transporting, and selling imported goods and services, import competition also keeps manufacturers on their toes.

The story on page 12—"Twenty Minutes Before School"—illustrates how the global economy affects Americans in their daily lives. It also reveals how difficult it is to guess what is foreign-made and what is "Made in the U.S.A."

Why Do People and Nations Trade?

The United States has been blessed with navigable rivers, fertile soil, abundant resources, and a hard-working populace. Because of these attributes and a large internal market, the United States can efficiently produce most of the goods and services its people need. Yet Americans must trade. Why?

Remember that trade always occurs because the companies or individuals doing the trading believe they will gain something from the exchange. Americans exchange their money or work or products for (1) other goods that they do not make (such as cocoa); (2) products that they do not make enough of (such as gasoline); and (3) items that they do not make as efficiently as overseas manufacturers (such as lace tablecloths or color televisions).



Babe Ruth had a huge absolute advantage over his teammates because he was not only the best hitter on his team but also the best pitcher. However, it was his hitting prowess—his comparative advantage—that earned him a spot in the Baseball Hall of Fame.

Ironically, baseball—a sport invented in the United States but since embraced by many other nations including Japan—may provide an understanding of how Americans make decisions about trade. The United Nations Association, working with the Foundation for Teaching Economics, first used the following example to convey why trade occurs and to explain two concepts: comparative advantage and absolute advantage.

Babe Ruth—Hitter or Pitcher? Babe Ruth was a legendary baseball player for the Boston Red Sox, and, after 1919, the New York Yankees. "The Babe" was both the best hitter and the best pitcher on his team. But after pitching one game, he had to sit on the bench to rest his arm for a few days. However, if he was sitting, he was not hitting. The team's manager had to make a decision. Was it more important to the team to use Ruth to hit or to pitch? The manager knew that even though Babe was a great pitcher, he had other players who could pitch well. However, the manager also realized that Babe Ruth was far better than his teammates at hitting. No one could come close to his ability to hit home runs. In short, Babe had an absolute advantage over his teammates at both hitting and pitching. But his comparative advantage (compared to his

teammates) was clearly in hitting. Reflecting on Babe's skills, the manager of the Yankees decided to use him as a full-time hitter and let someone else do the pitching. The strategy paid off for years as the Yankees frequently won the World Series.

Some analysts may take this sports analogy too far. They talk about trade as if it were a competition or a game—like baseball—where only one side or one nation can win. But remember, trade only occurs when both nations believe they will benefit; thus, both governments strive to do all they can (within their national political context) to settle their disputes and keep trade flowing. Therefore, if a headline reads, "Trade War with China," remember that citizens from both the United States and China want to continue to have open markets that benefit workers, producers, shareholders, taxpayers, and citizens from both nations.

Absolute and Comparative Advantage Between Nations

A nation has an absolute advantage if its firms can produce a good or service more efficiently than another nation. However, each trading nation will gain more if, rather than producing everything it needs, it specializes in producing those goods and services it can make at the lowest relative cost. This is a nation's comparative advantage.

For example, there are few places in the United States where farmers can grow coffee plants. Farmers in Centralia, Illinois, could choose to grow coffee plants in greenhouses rather than the rows of corn they currently plant in their fields. But if they were to choose coffee, they would have to give up some of their land, labor, money, and expertise in growing corn to develop expertise in growing coffee. Centralia's farmers have made a choice based on their notion of comparative advantage: They decided to grow corn but to import coffee beans from Colombia, Ecuador, and Brazil—areas better suited for growing coffee.

Trade changes as markets change. Comparative advantage changes over time. There may come a day when Centralia's farmers will be able to produce coffee cheaply and efficiently in greenhouses. The United States may then reduce its imports of coffee. Why? What Americans produce and trade is constantly changing in response to changes in demand, technology, market conditions, and policy.

What's Ahead?

America's role in the world economy is unique. On one hand, the country is the world's most active trading nation; on the other hand, it is relatively self-sufficient. But Americans must also recognize that markets for technology, goods, services, money, and even culture are global. People the world over won't leave home without their American Express cards as they dash out in their Levi's jeans to the cinema to drink Coke and watch Sylvester Stallone's latest movie.

Even though the United States has led global efforts to reduce trade barriers since World War II, many of its citizens have paid little attention to trade policy. However, as trade expands and Americans find themselves more connected to the world economy, they will likely find trade becoming more important and more controversial.

Because no American is untouched by trade, trade policies are everybody's business—a business they need to know more about. This book was written in hopes of stimulating discussion and creating better understanding about trade. The next chapters use holidays to help Americans assess trade policy from many vantage points: as producers (workers or proprietors), taxpayers, consumers, citizens in a democracy, and friends of Earth.

Labor Day

A Worker's Perspective on Trade

As Americans honor their workforce on the first Monday in September, they may wonder how the global economy has and will affect their jobs and standard of living. Will trade boost wages and expand job opportunities for U.S. workers? Or will growing world trade lead to job loss and growing wage inequality in the United States? Is trade really to blame for job losses in the United States?

Trade and the American Dream

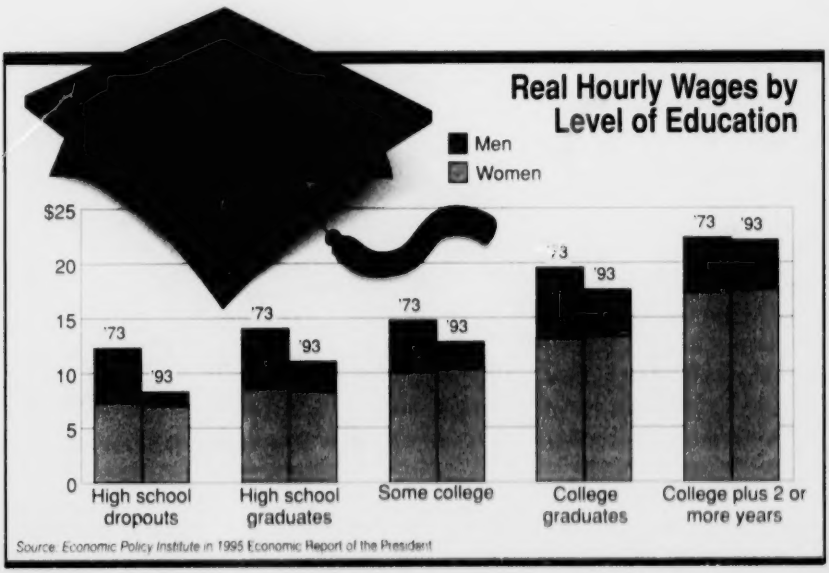
Americans like to think of their nation as different from other nations. Many believe that wherever you come from or whatever you do, if you work hard, you can achieve "the American dream." In the nineteenth century, John D. Rockefeller, Andrew Carnegie, and Abraham Lincoln personified how Americans could rise from rags to riches or from a log cabin to the White House. Today, John Shalikashvili—the first draftee and first foreign-born soldier to rise to chairman of the Joint Chiefs of Staff—or Mary Louise Ciccone—the entertainer known as Madonna—provide examples of Americans who rose from humble beginnings to find fame and fortune or both. This belief in the American dream—the opportunity to succeed economically—sustains many people living in the United States.

A Rising Standard of Living Until 1973. Throughout much of the twentieth century, for many but not all Americans, the American dream was a reality. Because the economy was growing, it took the average American only thirty-six years to double the income of his or her parents. Most did not become rich, but from 1873 to 1973, real average hourly earnings (income statistics that have been adjusted for inflation) rose by 1.9 percent a year. And despite economic disruptions, including two world wars, recessions, and the Great Depression,

a growing number of Americans enjoyed access to unprecedented goods and comforts.

Declining Wages in the 1970s. But in the 1970s, average real hourly earnings began to decline. This drop in real earnings is called wage stagnation. According to the President's Council of Economic Advisers, the median real hourly wage fell by 6 percent from 1973 to 1993. For many Americans who were well aware of this wage stagnation, the American dream appeared less attainable.

Other trends seemed to hint that the American dream was faltering. Nations that had been less-developed, such as South Korea, Singapore, Brazil, and China, were beginning to produce a wide variety of goods, including the high-tech products that the United States had once produced very successfully. And although the price of many consumer goods such as VCRs, toasters, and raincoats fell, these goods became symbols of America's declining manufacturing prowess. Some Americans who once held high-paying manufacturing jobs lost those jobs as factories automated (substituted electronic mass production methods for labor), moved overseas, or closed because of foreign competition. Although many of these changes were due to improvements in technology and productivity, many American workers and business owners blamed trade policy for their problems.



Between 1973 and 1993, real hourly wages for men went down for all education categories, but the decline was greatest for the least educated. Women's real wages remained nearly the same for all levels of education.

Growing Wage Inequality. The 1970s also saw a dramatic increase in the inequality of earnings, in particular between skilled workers with college and other advanced degrees and workers with less than a high school education. Although wages for many workers fell, the decline was worst for the least skilled and educated—those for whom the booming U.S. economy had once offered the potential of a middle-class life. These workers were not only falling behind the educated, they found few jobs that allowed them to even begin to catch up. As the chart on page 18 reveals, growing wage inequality did not affect all workers; it primarily affected men with the least education. Real wages of women have remained roughly constant.

Sluggish and unequal real wage growth and its effect on the American dream concerns many Americans. U.S. political and economic stability depends to a great extent on an economy that brings benefits to all citizens. Moreover, America's workers want to know that their hard work will be rewarded. Tomorrow's workers may wonder whether they can find a fulfilling and challenging job with a future that will allow them to provide for their families.

Is Trade to Blame?

Economics is known as the "dismal science" because Thomas Malthus, one of the first economists, predicted the world would always be on the edge of famine. He believed population growth would exceed the growth of the food supply and thus, wages would be held down to subsistence levels. Today most economists do not share his gloomy conclusion; the world's economic growth has left them more optimistic. Although economists disagree about the nation's future, most do not believe America's growing wage stagnation and inequality rest solely on the shoulders of increasing world trade. According to the Council of Economic Advisers in 1995, "the sluggish growth of incomes is due to dramatic changes in technology and in global competition." As manufacturers continue to invest in technology, they have been able to produce more goods with fewer workers. Thus, technology and improvements in productivity, not trade, are responsible for many of the job losses in manufacturing.

Understandably an unemployed worker may not agree—especially if this worker has seen the factory in which he or she once worked close and relocate to Mexico or Malaysia. This person may be inclined to think that if only the rest of the world would go away, Americans would keep their jobs. But this perception is inaccurate. Many Americans are employed in trading, financing, and distributing goods and services abroad and domestically. Moreover, trade has only

a small effect on net employment. And finally, trade and jobs have a strange relationship. When U.S. unemployment is low, the trade deficit is often high because both variables are driven by strong U.S. economic growth. Conversely, when unemployment is high, the trade deficit tends to decline. Why? Americans buy more goods (including imports) when the economy is doing well and buy fewer goods of any sort when the economy is sluggish.

Moreover, as economist Paul Krugman notes, the global economy and wage inequality did not arrive hand in hand on the shores of the United States. The large increase in the importance of trade to the U.S. economy took place in the 1960s and 1970s, whereas the growing wage gap between the highest and lowest paid workers became most evident in the 1980s. Krugman also points out that most of America's imports come from other advanced countries with relatively high wages. Thus American manufacturers and American workers are competing with high-wage manufacturers in other developed nations. Some economists disagree. They suspect the costs of globalization such as wage stagnation and inequality were simply postponed until the 1980s.

Changes in What Americans Make

Changing market conditions have forced American companies to alter the items they make. In the 1960s, American workers made consumer products like light bulbs, television sets, automobiles, and the like. Manufacturers needed welders, engineers, and millions of low-skilled workers to make such products. Today, although American consumers can still buy products that roll off U.S. assembly lines, some of what they make did not even exist in the 1960s; other products have become obsolete. However in 1995, millions of American men and women work at producing services; they are occupational therapists, paralegals, travel agents, computer programmers, and so on.

These changes in what Americans produce and in the kinds of jobs they have illuminate why there is now less demand for low-skilled workers. When large numbers of unskilled American workers are chasing fewer jobs, they command less money for their work. As a result, their incomes in real terms are declining.

Moreover, areas where job opportunities are expanding today tend to employ high percentages of college graduates or individuals with specialized training. For example, between 1984 and 1993, the share of the labor force using computers on the job increased from 25 percent to 47 percent. Thus, American business will probably pay better

wages for computer-literate, often college-educated, employees.

The Fate of Those Who Lost Jobs. What happened to those workers who lost jobs during the 1970s and 1980s? Did they find or create other opportunities? Some evidence suggests that many have found other jobs and have created new small businesses. But studies by the U.S. Bureau of Labor Statistics have found that a large number of workers who were laid off in the 1980s did have problems finding new work. And if they did find work, their new jobs often paid less than their old ones. Additionally, although federal government programs once helped pay for retraining workers displaced by foreign competition, Congress has reduced those funds in the face of federal budget deficits.

Millions of Americans now earn their livings working in service industries such as computer programming and health care.

The Indirect Effect of Global Markets on Wages

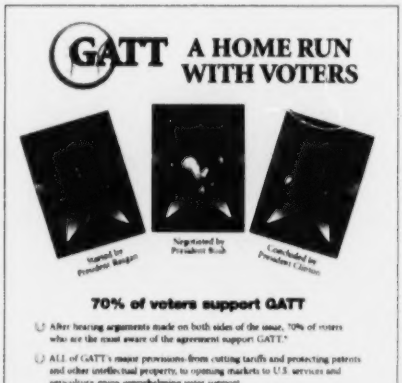
Although economists disagree on how the global economy affects U.S. workers, the internationalization of the U.S. economy does seem to affect wages indirectly. U.S. workers are losing bargaining power with employers. Just as Americans live in a global market for capital and technology, they also live in a global market for labor. As a hypothetical example, consider the Smith Company, which makes toys in Texas. Labor costs are just one factor affecting the cost of production, but the Smith Company's labor costs in the United States are relatively high because of salaries, benefits, and workplace regulations. The president of the company, Caroline Smith, tells her workers that she will move the company's factories to Malaysia, where labor costs are lower and regulations less demanding than in Texas, unless her workers agree to take a pay cut. The company's workers include engineers, top management officers, and unionized factory employees. In a tumultuous meeting, both shop floor and executive suite employees agree to accept a cut in pay to keep their jobs. No one knows the implications of these employees' lost bargaining power for the U.S. economy as a whole, but it seems apparent that workers at the Smith

Company took a pay cut because they were forced to compete with workers in Malaysia.

Trade, Jobs, and Policymakers. Trade policy is a balancing act. Government policymakers try to open markets and reduce trade barriers to meet larger economic goals such as expanding employment and providing a wide range of high-quality goods and services at the best prices to consumers. They also try to prevent job losses in sectors of the economy affected by foreign competition. But when government policymakers talk about trade, they rarely describe how they plan to juggle all these considerations. They tend to talk about trade in terms of numbers—numbers that represent benefits to the economy and specifically jobs lost or gained.

For example, when President Bill Clinton was trying to drum up support for the latest GATT agreement, he noted that reducing trade barriers would increase exports and that for every $1 billion in additional exports, some 20,000 jobs would be created in the United States. Proponents of the agreement admitted that some low-wage jobs would be lost. But they stressed that these jobs would be offset by new jobs created by our trading partners' greater demand for U.S.-made products.

Opponents of freer trade also use numbers to defend their views. In 1993, opponents of the North American Free Trade Agreement (NAFTA) argued that the agreement would lead to a net loss of 290,000 to 550,000 jobs in the United States. One GATT opponent


GATT A HOME RUN WITH VOTERS
Started by President Reagan
Negotiated by President Bush
Concluded by President Clinton
70% of voters support GATT
After hearing arguments made on both sides of the issue, 70% of voters who are the most aware of the agreement support GATT.*
ALL of GATT's major provisions from cutting tariffs and protecting patents and other intellectual property, to opening markets to U.S. services and agriculture enjoy overwhelming voter support.
69% of voters favor the creation of the World Trade Organization.
Voters reject opponents' charges about U.S. sovereignty by a 2-1 margin.
Democrats, Republicans, and Independents all strongly support GATT.

Anti-business Paranoia stands to gain from GATT
So what to do with No Thanks
DON'T LET CONGRESS TRADE AWAY OUR RIGHTS
FIGHT GATT: URGE YOUR SENATORS TO VOTE NO.
Vote No on GATT.
Vote No on GATT.

Businesses and special interest groups spent millions of dollars on advertising campaigns to urge Congress to either pass or defeat approval of GATT.

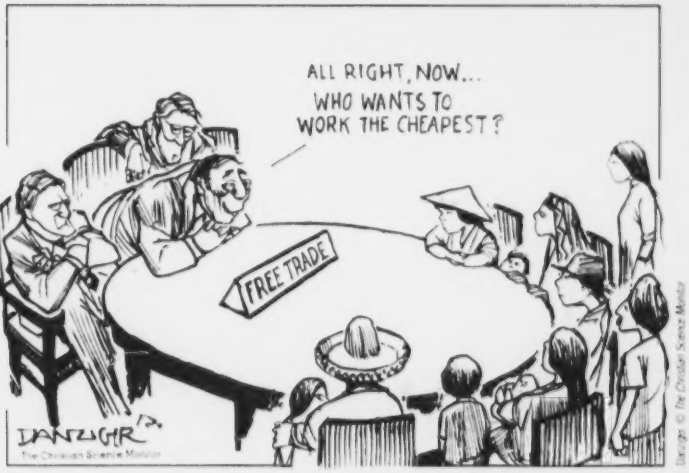
said that if $1 billion in exports equals 20,000 high-wage jobs, "this year's $160 billion deficit alone would eliminate over 3 million such jobs"—a figure many economists would dispute.

Political Implications. Regardless of what the numbers may or may not show, the public perceives that trade affects their jobs—and politicians have responded to these public concerns. One of the most outspoken opponents of NAFTA has been business leader and 1992 presidential candidate H. Ross Perot. Perot argued that the United States would soon become a nation of hamburger flippers if NAFTA were approved. He expressed a concern of some workers when he said the free trade agreement would lead to a "giant sucking sound" as jobs moved southward. The fear of job losses galvanized the opposition to NAFTA (and helped Perot win an unprecedented number of votes for an independent candidate). NAFTA faced a long and contentious debate before Congress, but was ultimately approved. So far, most experts say that Perot's predicted massive job loss to Mexico has not happened.

Few people can estimate the potential job loss or gain from trade because no one can predict how technological, social, or political changes will affect the global economy. Economic history reveals that freer trade policies have indeed led to some job losses, but that those policies have also created many new jobs for Americans. If history is any guide, trade has also both improved and worsened working conditions for workers worldwide. This is a great dilemma. Should Americans be concerned with working conditions overseas? Is trade policy the appropriate arena in which to address these problems?

Case Study: Trade and Workers' Rights

Labor standards are an important issue. Some nations do not monitor working conditions and their workers do not receive a decent wage. However, the United States cannot force such nations to adopt U.S. standards for how workers should be treated. Moreover, these nations may derive economic advantages (lower costs, greater profits, and a larger market share) from the ill treatment of their workers. Few would argue that competitive advantage in trade should come from exploiting children, denying workers the right to form unions, or refusing to ensure a safe work environment. Such practices were abandoned years ago by the United States and many other nations. Yet these are the conditions in which some of the world's peoples toil for both U.S.- and foreign-owned companies.



To understand the difficulty as well as the urgency of dealing with labor standards and workers' rights in other nations, consider an item millions of U.S. children like to kick around—soccer balls. In many communities in the United States, children as young as age 3 join soccer leagues. Ironically, in Pakistan, where about half of all soccer balls sold in the United States are made, some 25 percent of these balls are made by children working long hours under horrible conditions. Why are so many Pakistani children working?

Population growth and the globalization of markets have helped push families around the world into poverty, forcing parents to rely on their children for increased income. According to the International Labor Organization, there are as many as 200 million children between the ages of 10 and 14 working in jobs that are dangerous, unhealthy, and often inhumane. In the least developed countries, nearly one of every five children holds a job—some as young as age 5. As Molly Moore wrote in *The Washington Post*, many of these children work on the Indian subcontinent (India, Pakistan, Nepal, and Bangladesh). She noted, "Children often work in abysmal conditions. Hundreds of youngsters labor in dingy hosiery factories from dawn to nearly midnight to meet the needs of T-shirt and underwear companies in the United States."

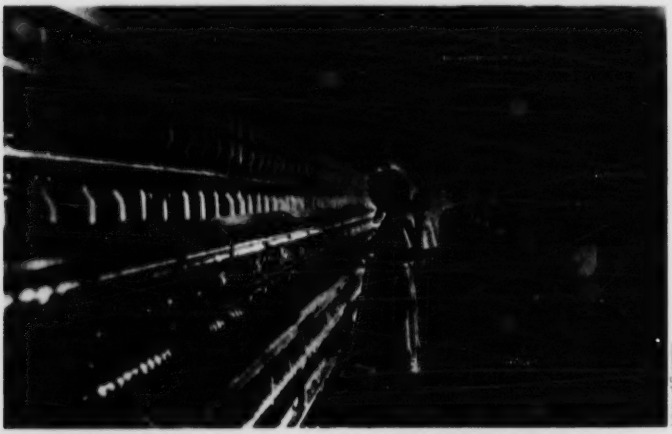
Although nations such as India and Pakistan do have laws protecting their workers, such laws can be problematic. In many of these countries, government officials can be bribed and rules can be ignored. Moreover, employers have found creative ways to go around regulations against child labor.

It may be easy for Americans to criticize Pakistan or India for not doing something about child labor, but critics need to remember that

child labor was common in U.S. factories during the nineteenth century. Even though labor was in short supply relative to resources and capital in the United States, it took almost a hundred years after industrialization for Congress to pass national laws forbidding child labor. These laws are difficult to enforce even in the United States. In September 1995, Los Angeles police shut down a sweatshop where immigrants of many ages were working in horrible conditions.

In contrast to the United States during the Industrial Revolution, many developing nations today have a surplus of labor, and people are desperate for work. Many Western companies are farming out labor to factories in developing countries where laborers' wages are cheaper and families need jobs. Many of these laborers are children.

Solutions to Child Labor. What can Americans do about child labor in developing countries? One response is to recognize that such problems are best addressed by labor policies in each country and not by trade policies. Thus, as these nations develop, they will protect their children. Another approach is for consumers to boycott products made with child labor, but it is difficult to know which soccer balls are made by children and which are not. Most Americans would hesitate to punish Pakistani workers in general merely because some exports from Pakistan have been made by child labor.



Library of Congress

Although most Americans today are appalled by child labor in developing countries, thousands of American children worked in U.S. factories and mines in the 1800s and even into this century. While attempts were made by states to regulate child labor, it was not until Congress passed the Fair Labor Standards Act in 1938 that the practice was prohibited nationally.

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An additional approach is for the U.S. government to ban imports made with child labor. However, such action could require that the United States compensate Pakistan for these lost imports. Should the United States stop importing soccer balls from Pakistan? Should U.S. officials encourage Pakistan to require that its children go to school? Although this strategy helped end child labor in the United States, this solution might condemn Pakistani parents and children alike to continued or even worse poverty.

A final approach might be to strengthen the World Trade Organization to include workers' rights. The United States has tried and failed to incorporate labor standards into the GATT since 1953. Clearly nations have a hard time agreeing on core labor standards. The WTO does not provide a means of imposing sanctions on nations that do not adhere to international workers' rights conventions, such as the establishment of minimum employment standards, the legalization of unions, and the outlawing of slave, prison, and child labor. The Clinton administration wants to include issues of workers' rights in the next round of trade talks sponsored by the WTO. But that may not occur for years.

Outlook: Trade and Workers

One of the benefits of trade should be to raise living standards in the United States and around the world. As the case of the Pakistani soccer balls demonstrates, there are no easy answers as to how this can be done. While commerce is global, social protection and regulation remain the responsibility of national governments.

There is widespread disagreement as to whether laws protecting labor should be part of trade agreements. However, there is widespread agreement that labor standards should be appropriate to each country's level of development. The President's Council of Economic Advisers wrote in 1995, "the ability to compensate workers is limited by overall productivity in the economy, and that compensation may be paid in some combination of wages and better work place characteristics, in proportions that may vary across societies."

Happy Holidays!

A Consumer's Perspective on Trade

As the dog and the garbage disposal absorb the last of the Thanksgiving turkey, many Americans breathe a sigh of relief. That relief, however, is short-lived, jolted by the recognition that the end of Thanksgiving signals the beginning of the December shopping season. Many men, women, and children will march out the door to the local mall to join everyone else on the Friday after Thanksgiving to hunt for just the right gifts for friends and family. Americans may be surprised to learn that many of the presents they buy are imports or contain imported components. Thus, trade policy has a lot to do with finding that perfect gift. The holiday season can provide Americans with insight into how trade policy affects U.S. consumers.

Barriers to Trade

Just as nations and people have always traded, nations and people have always been erecting barriers to trade. Why do nations make it harder to trade? For economic, political, social, and strategic reasons, policymakers and citizens sometimes decide that specific workers and industries need to be protected from foreign competition. There are many reasons to put up trade barriers, but there are always some costs as well. For many years, officials relied on two tools to protect U.S. producers from foreign competition: tariffs and quotas.

How Tariffs Affect Trade. A tariff is essentially a tax that a nation's government applies to foreign-made goods as they come into that nation. Producers increase their prices to consumers to recover the cost of the tariffs. The national treasury captures the revenue from the tariffs. But when governments use tariffs, they change market conditions by interrupting the forces of supply and consumer demand. Eventually, domestic producers recognize that consumers are going to

WE'VE GOT TO KEEP THOSE BLASTED FOREIGN IMPORTS OUT OF THE COUNTRY!
PROTECTIONISM WILL JUST TRIGGER RETALIATION BY OTHER COUNTRIES...
AND ALL YOU'LL END UP DOING IS MAKING MORE UNEMPLOYMENT
BUT IT'LL BE MADE IN AMERICA!

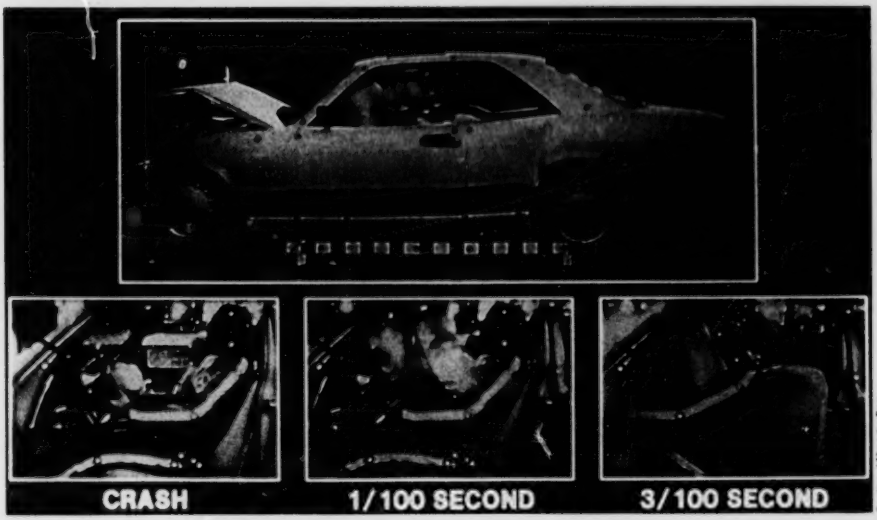
have to pay higher prices for imported goods that were assessed tariffs, so they raise their prices on their domestic products.

These higher prices may benefit workers and shareholders in the protected industries, but higher prices are not good for the average consumer or the economy as a whole. If consumers have to pay more for their videotapes, lawn mowers, or clothes, they will have less money to pay for other goods and services. Ultimately these consumers will purchase less, thus leading to fewer jobs and less economic growth.

How Quotas Affect Trade. Unlike tariffs, quotas limit the quantity of foreign goods that can be imported. Because they have been allotted a limited quantity of goods, foreign producers are likely to export higher-valued items, which are generally more profitable. For example, after the U.S. government instituted steel quotas, Brazilian and Korean steelmakers began to ship higher-valued steel products to the United States, replacing the sheet steel used to make steel products. Eventually, those quotas caused consumer prices to rise.

As U.S. buyers chase the limited supply of imports, foreign producers may raise their prices as the demand for their products outpaces the supply. And when prices of imports rise, U.S. producers will likely raise their prices too. Why? Because market conditions have changed.

Quotas and tariffs are not the same. Although both types of trade barriers ultimately raise prices to consumers, the U.S. Treasury does not collect revenue from quotas. Instead the profits derived from higher prices go directly to the importer or to the foreign producer. Thus, a national government needing revenues is better off using tariffs rather than quotas.



The U.S. government requires that by 1998, all new cars sold in the United States have driver's- and passenger's-side air bags. Foreign car manufacturers must install this safety standard in all cars they export to the United States even though air bags may not be required in the country where the cars were made.

Covert Trade Barriers. The United States and its trading partners still use tariffs and quotas to protect producers and workers. However, since the first GATT round in 1947, use of these trade barriers, which are overt and visible, has been greatly reduced. Of course, such overt trade barriers are not the only mechanisms used by governments to alter trade flows. Nontariff measures such as foreign exchange controls or procurement policies can also restrict or distort trade. Nations often did not deliberately design such measures to protect domestic industries, but they may have that effect. For this reason, these nontariff measures are often called de facto trade barriers. Among the most important nontariff barriers to trade are standards.

Standards. Governments make laws and regulations, called standards, to protect the health, safety, security, environment, or consumer interests of their citizens. These laws and regulations are not explicitly designed to impede trade but rather to ensure levels of quality, performance, or safety. There are two types of standards. Some relate to the final product (a product standard); others relate to the process by which the good or service was produced (a process standard). For example, the United States has product standards to ensure that toys will not hurt American children. Foreign producers of children's toys, like American producers, must meet these standards if they want to sell in the U.S. market. However, these foreign producers may not

have to meet similar standards in their home markets. They may view U.S. use of such standards as a covert, or hidden, form of trade protection, or protectionism.

To adhere to U.S. standards, sometimes foreign producers must change their manufacturing processes or the design of their product. This can be expensive and may lead foreign producers to raise prices for their products. Not surprisingly, foreign producers sometimes allege that such standards act like trade barriers. Just as America's trading partners may protest U.S. standards, sometimes the United States also protests other nation's standards as the equivalent of an unfair trade barrier.

Nations often disagree about appropriate standards. For example, many Americans love guacamole—a traditional Mexican dish. However, the United States does not allow avocados, the key ingredient in guacamole, to come into the country from Mexico. These same Mexican avocados, however, are welcome in Japan and Germany. The United States says Mexican avocados do not meet U.S. standards; Mexico counters by saying that if they are good enough for the Japanese and Germans, why are they not good enough for Americans?

In hopes of avoiding further disputes about standards, GATT/WTO members agreed in 1994 that nations can impose trade controls "to protect human, animal, and plant life, or health" if the measure is based on scientific principles and is applied on a nondiscriminatory basis (the measure must treat producers from each nation in the same manner). The agreement also supports efforts to promote the harmonization of standards around the world. The United States and other nations retain their ability to use standards that are scientifically justified. Nonetheless, trade disputes over such covert barriers to trade will probably continue until the people of the world come to a consensus regarding how and what goods should be produced.

How Consumers Benefit from Trade Barrier Reduction

Although trade disputes of the future may be about covert barriers to trade, many of the trade disputes of the past have been over tariffs and quotas. In the 1930s, U.S. policymakers recognized that such disputes had deepened the Great Depression at home and contributed to the political and economic turmoil in Europe that had preceded World War II. In 1934, Congress approved legislation authorizing bilateral trade negotiations to reduce trade barriers. In 1947, the United States and twenty-two other nations embarked on a global

effort to reduce tariffs and quotas. This process, called multilateral trade liberalization, helped to expand global markets for many U.S. goods and services. Trade liberalization, or freer trade, also helped make American shoppers the beneficiaries of a global bazaar of goods, affecting both the supply and price of goods.

Compare the two holiday lists on page 32 to gain a sense of how trade liberalization, technological change, and productivity improvements have broadened the supply of goods and services available to American consumers.

UPI/Bettmann

In 1930, Congress passed a tariff law that greatly increased tariffs on many products. Historians and economists generally agree that the Smoot-Hawley Act, named for its sponsors, Representative W.C. Hawley and Senator Reed Smoot (shown here), deepened the Great Depression in the United States and contributed to economic and political turmoil in Europe.

The 1955 List. As the 1955 list shows, most of the presents were made in the United States by American workers. Why? First, many European and Asian factories had been devastated by World War II. It took several years to replace these factories, rebuild product lines, and increase productivity. Secondly, for many goods and services, American producers were the most efficient and technologically advanced in the world. Finally, many Americans did not want to buy goods and services made overseas. They believed that the United States produced the best quality goods and services, and in general they were right. But consumers' perspectives began to change in the 1960s.

The 1995 List. Forty years later, the list is different; the products Americans buy come from the United States and around the world. While some goods are made overseas by foreign producers working for foreign-owned companies, other goods are assembled in the United States with foreign components. Still other goods once made overseas are now produced in the United States.

Consider the products on the 1995 list. Beth's computer was made by an American company in South Korea, while the venerable U.S. company that made the 1955 typewriter filed for bankruptcy in 1995. The frame, fork, reflectors, sprockets, and brakes for Billy's bicycle were made in the United States, but the grips, seats, and pads were made in China. However, all of its components complied with U.S. child safety standards. Lucia's jeans were made in the United States. Ironically, the 1995 Broadway production of *Carousel*, a musical written by Americans and originally staged in the United States, was

1955 Holiday Gift Price List

Individual	Item	Source of Materials and Production	Price	Price in 1995 dollars
Mom	*Kodak 33mm camera*	*United States*	*$29.50*	*$163.13*
Dad	*Florsheim leather shoes*	*United States*	*$19.95*	*$110.32*
20-year-old Beth	*Smith-Corona electric typewriter*	*United States*	*$209.35*	*$1,157.70*
8-year-old Lucia	*Sears jeans*	*United States*	*$1.64*	*$9.07*
9-year-old Billy	*Western Auto bicycle*	*United States*	*$64.95*	*$359.17*
Grandma	*One ticket to* Carousel, *a Broadway musical*	*United States*	*$8.05*	*$44.51*
Grandpa	*Stanley screwdriver set*	*United States*	*$4.95*	*$27.37*
Cousin Peter	*Rawlings baseball glove*	*United States*	*$9.95*	*$55.02*

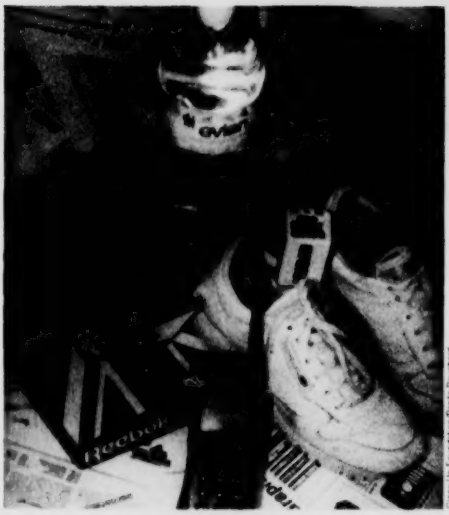
1995 Holiday Gift Price List

Individual	Item	Source of Materials and Productio.	1995 Price
Mom	*Minolta 35mm camera*	*Taiwan*	*$69.99*
Dad	*Florsheim leather shoes*	*United States*	*$94.95*
20-year-old Beth	*Packard-Bell personal computer*	*South Korea*	*$1,598.99*
8-year-old Lucia	*Disney "Minnie Mouse" jeans*	*United States*	*$16.00*
9-year-old Billy	*Huffy bicycle*	*United States, China*	*$139.99*
Grandma	*One ticket to* Carousel, *a Broadway musical*	*United States, Great Britain*	*$65.00*
Grandpa	*Black and Decker battery-powered screwdriver*	*United States, Mexico*	*$21.00*
Cousin Peter	*Rawlings baseball glove*	*Philippines*	*$54.99*

imported from Britain and directed and restaged by a British director with an American cast. The battery-powered screwdriver was assembled in North Carolina by a U.S. company, but many of its parts were made in Mexico.

Still "Made in the USA." Clearly, in comparison with the 1950s, Americans today are buying more goods made overseas and more products assembled in the United States with foreign parts. What are the implications of this? Some Americans who once made typewriters have lost jobs to their foreign workers who now make computers. American companies that once made these products are out of busi-

ness, out of these product lines, or importing foreign-made goods today. But some items once made overseas are again being made in the United States. One reason is because American workers are now among the most productive in the world. Despite relatively high hourly costs and benefits, American workers can produce more jeans and sweatshirts at competitive costs because of their productivity. Thus, a U.S. manufacturer, for instance, could make high-quality affordable children's clothing in the United States; the company does not have to move to Asia or Latin America.



Close Up Foundation/Renée Bouchard

The lowering of trade barriers has given the American consumer the opportunity to choose from hundreds of imported products.

Some readers may be surprised by how many products continue to be made in the United States. Both U.S. and foreign producers want to locate their factories near America's skilled workforce and universities (which are sources of new ideas and processes). Moreover, producers want to place their factories in the United States to be close to 250 million consumers, most of whom speak the same language. But do all consumers benefit from open markets? What about low-income consumers?

Case Study: The Issue of Equity

Lower-income families in the United States must spend a greater share of their income on necessities such as clothing, shelter, furniture, and food. Although the United States has relatively low trade barriers on many goods, it still uses tariffs on lumber and women's footwear as well as import quotas on sugar and dairy products. The U.S. government also has agreements with several nations to voluntarily restrict their exports of clothing. Many of these protected goods are necessities—items everyone, including people with low incomes, need. Because tariffs and quotas increase the prices of such goods, protectionism works like a regressive tax. It hurts families with lower incomes more than rich or middle-class families.

What would be the effect of reducing or eliminating trade barriers on items deemed necessities? The price of clothing, cookies, catsup, bread, and breakfast cereal might not decline by much. But even a

small drop in price would give the neediest consumers a little more cash to spend or save. However, some necessities would decline a great deal in price. For example, using 1990 figures, the Institute for International Economics estimated that the import price of clothing would decline by some 48 percent and sugar would come down by some 43 percent in the United States if trade barriers were eliminated. Low-income families would benefit from such trade barrier reduction.

Winners and Losers. As the previous paragraphs show, the issue of equity is not simple. The study cited above also found that reducing trade barriers on clothing and sugar could cause more than 2,000 workers in the sugar industry and more than 150,000 in the clothing industry to lose their jobs. While reducing trade barriers could lower the cost of some items to consumers, these same barriers might protect the jobs of some of the nation's neediest citizens. Many American factory jobs have been automated or moved to overseas factories. Most jobs lost as a result of foreign competition have been relatively low-wage, low-skill manufacturing jobs. Thus, America's unskilled workers may have difficulty finding new jobs.

Outlook: Trade and American Consumers

Whether Americans shop at Saks Fifth Avenue or Sears, freer trade policies help them by providing more high-quality goods and services at competitive prices. Foreign competition keeps American producers on their toes. Open markets also help make goods more affordable for America's neediest citizens.

On the other hand, open markets may not always be in the consumer's best interest. Standards and other regulations help protect consumers from dangerous or defective products. GATT WTO members recognized the legitimacy of such standards and began working to harmonize them in 1995.

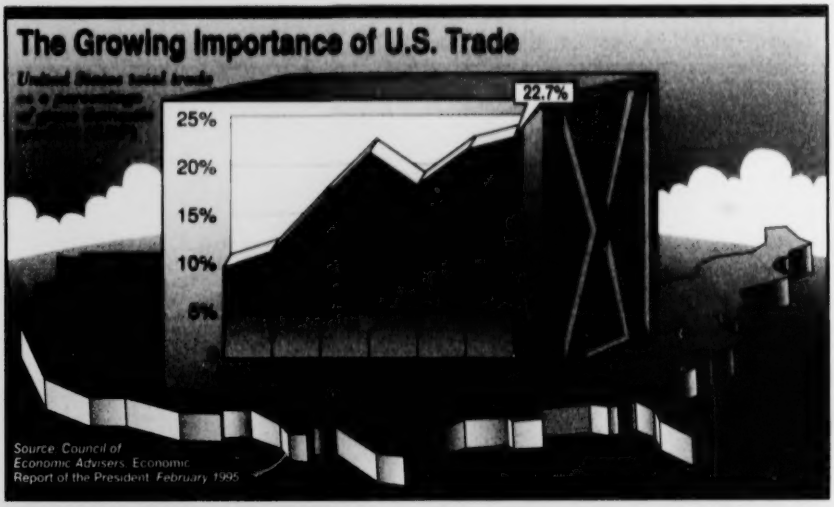
Trade protection measures fall hardest on low-income Americans who can ill afford higher costs for the goods and services they need. However, America's low-skilled workers are most likely to lose their jobs due to foreign competition. Thus, freer trade policies may both help and hurt the working poor.

Presidents' Day

A Citizen's Perspective on Trade and Democracy

George Washington and Abraham Lincoln, the presidents Americans honor on Presidents' Day, understood the essence of leadership. They recognized that great leaders could not force the public to adopt their perspective or policies, but could only steer public debate. This February holiday offers an opportunity to discuss how America's leaders make trade policy and how they inform and involve the American people in those choices.

Until recently, most Americans did not usually think about trade policy as having much of an effect on their democracy. However, the debates over congressional approval of the North American Free Trade Agreement (NAFTA) in 1993; approval of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994; and continu-



Trade has become an increasingly important part of the American economy, making up nearly 23 percent of the nation's gross domestic product in 1994.

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ing controversy about U.S. trade relations with Japan and China in 1995 have awakened many Americans to the importance of trade to their nation.

As the chart on page 35 illustrates, in 1994, trade-related activities made up nearly one quarter of the nation's gross domestic product—twice the value of trade in 1970. Because trade is so economically important, trade policies are politically important. Governmental decisions on trade will affect the nation's economic growth and stability, the standard of living of a large percentage of the population, and perhaps U.S. political stability. How presidents and members of Congress make and manage trade policies will affect the government's ability to achieve other important policy goals—from providing good jobs to protecting the environment. But, as is the case with all government policy decisions, the president and 535 members of Congress do not always agree on trade policy. And the people who elect them do not agree either. The United States is a nation of people with strong differences of opinions on what their policymakers and policies can and should do.

Developing Views About Trade Policy. Many Americans think the federal government has a responsibility to protect U.S. workers and firms hurt by foreign competition; they want their elected officials to erect trade barriers to foreign imports. These people tend to hold protectionist views. Others believe markets work best without government interference; they advocate free markets within the United States as well as across borders—markets without trade barriers. These people tend to hold freer trade views. Attitudes toward trade policy are rarely pure protectionist or pure freer trade; most Americans fit somewhere in between these views.

Yet a person's inclination toward protectionism or freer trade is not simply determined by his or her views about government's role in the economy. Beliefs and values also affect his or her perspective. Americans who believe preserving world peace is a preeminent policy goal may think freer trade is a path to international understanding and cooperation. Other Americans may be nationalists, who believe all policies should be oriented toward the maximum benefit to U.S. political or economic security. These people probably feel more comfortable with a protectionist stance.

Although many Americans have a particular mind-set about trade, their multiple roles in society may make it difficult for them to be ideologically consistent. From a consumer's perspective, freer trade is good because it yields a greater supply of goods at lower prices. However, a worker who believes he or she has lost a job as a result of freer trade policies may disagree.

Americans may also find it difficult to be consistent in their opinions about trade because trade policy may produce mixed results. For example, consider an American who determines his or her position on a policy problem based on its effect upon the nation's security. That person will maintain that the United States needs a strong military industrial base. On one hand, the U.S. military will benefit if an ally such as France has strong defense aircraft industries that can export warplanes to foreign and U.S. air forces. In this view, competition for U.S. defense contracts between U.S. aircraft manufacturers and foreign warplane manufacturers will likely benefit U.S. taxpayers by keeping quality as high and prices as low as possible. Such competition should be in the long-term national security interest of the United States.

On the other hand, competition from French aircraft companies for defense contracts may lower the world market share of U.S. aircraft manufacturers. These U.S. companies may find that they have both decreased profits and less ability to invest in critical new technologies. Thus open trade in defense markets could both benefit and hamper U.S. national security.

Because U.S. trade policy can have such mixed results and because Americans assess trade policy from a variety of perspectives, most will find it difficult to be rigidly protectionist or rigidly free trade. Even the most ardent advocate of open markets recognizes that there are times when it is appropriate to protect certain producers. Who does not want to protect people from harm? Conversely, even the loudest voice for protection recognizes that protectionism is often inequitable because protectionist policies favor certain sectors of the economy and certain citizens over others.

Not surprisingly, economic history reveals that U.S. leaders have always mixed protectionist and freer trade policies. However, since World War II, the United States has led efforts to reduce trade barriers and to establish an international organization to govern world trade. The result of such efforts has been the creation of the General Agreement on Tariffs and Trade (GATT) in 1947 with 23 founding nations and the World Trade Organization (WTO) in 1994 with 123 member nations (see page 11). After nearly fifty years of effort, the United States achieved its goal of becoming part of an international organization that will encourage and govern trade among nations with many different economies.

Government in the Economy

Most Americans call themselves capitalists. They believe that markets work most efficiently if governments do not interfere and

that the market should decide the supply, demand, and prices of goods and services. Yet most Americans recognize that markets do not work perfectly. Sometimes markets permit discrimination against certain members of society (such as paying women less than men); sometimes markets have unintended by-products (such as pollution); and sometimes markets do not provide needed goods or services (such as lighthouse services or national defense).

Instead of using government organizations to provide goods and services, people living in the United States generally rely on laws and regulations to help what eighteenth-century economist Adam Smith called "the invisible hand" of the market (the movements of markets in response to supply and demand). In other words, Americans rely on the visible hand of government to make the invisible hand of the market work more equitably (fairly) and efficiently. But what does that mean?

The federal government performs three tasks regarding the economy:

1. It provides the rules so business and workers know what is legal and what is not.
2. It monitors markets to ensure a better balance of equity and efficiency.
3. It seeks to balance growth (which is chaotic and unmanageable) and stability.

Trade As Economic Policy. In many respects, trade policy is no different from other economic policies. The federal government provides rules for exporters and importers, monitors markets to protect consumers from unsafe imports, and seeks to encourage imports and exports that lead to domestic economic growth but do not subject U.S. producers to unfair competition. Like other economic policies, trade policy balances competing economic interests and priorities.

However, trade policy differs from other economic policies in that policymakers must weigh the international as well as the domestic effects of their decisions. For example, to gain market share, foreign producers will sometimes sell goods in the United States for less than their production costs or sale price in their country of origin. This practice, called "dumping," is considered an unfair trade practice. To protect U.S. producers, government policymakers can impose a tariff. But imposing such a tariff may affect the diplomatic and strategic relationships between the United States and those trading partners suspected of unloading goods at unfair prices.

The Roles of the President and Congress. In making trade policy, executive and congressional policymakers weigh international and domestic factors; assess security interests and political considerations; and balance consumer, taxpayer, producer, and voter interests.

Juggling these interests is not easy. In the Constitution, the founders were vague about how trade policy should be developed and which branch of government should develop it. On one hand, the Constitution gives Congress the responsibility to regulate international commerce. On the other hand, it gives the president the responsibility for conducting foreign affairs.

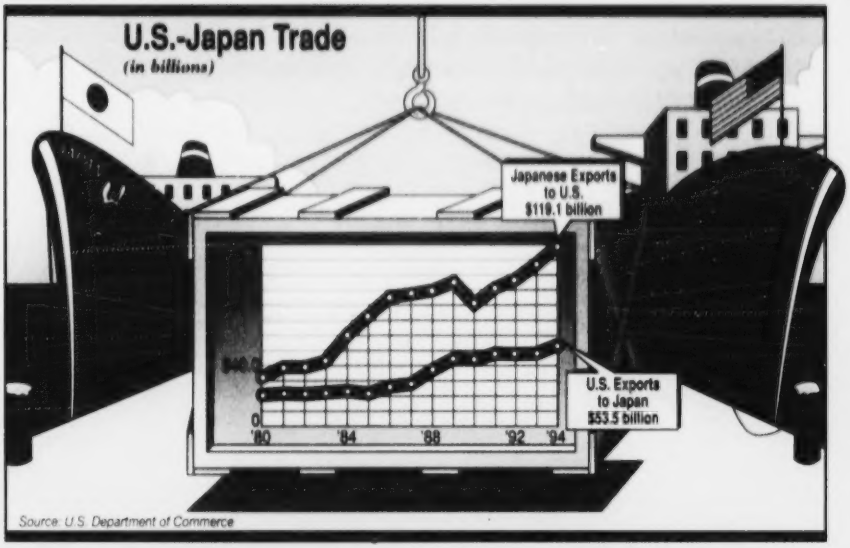
Congress moved quickly to establish its authority in making trade policy; the first piece of legislation passed by the First Congress was the Tariff Act of 1789. In the years that followed, the legislative branch used the incentive of tariff reduction as a lever to increase exports and limit imports. But policymakers soon recognized that protection could reduce the efficiency of the U.S. economy and be inherently unfair. This struggle continues today and is well illustrated by U.S. trade policy toward Japan, one of the United States' most important trading partners. The following section highlights the pushes and pulls on policymakers and how the trade policies they make affect U.S. citizens.

Case Study: The U.S.-Japan Auto Trade Dispute

Japan, the world's second-largest economy, is the United States' second-largest trading partner (Canada is first). However, the trading relationship between the two nations has been clouded by a great imbalance in trade. For the last two decades, Americans have bought much more from Japan than the Japanese have bought from the United States. This is called a trade deficit. In 1994, the U.S. deficit with Japan was $65 billion. Not surprisingly, the size and stubbornness of that deficit has made U.S.-Japan trade policy an important issue for recent presidents. Presidents Reagan, Bush, and Clinton have made reduction of Japan's trade surplus a top priority of U.S. trade policy. They believed that Japan has slowed down the world's economic growth by not buying its share of products from other nations.

There are a variety of explanations for Japan's trade surplus. Some people think Japan is inherently protectionist. But Japan has relatively low trade barriers (except for certain agricultural products). Nevertheless, compared to other nations of its size and development, Japan imports relatively little from other countries, particularly those products that are heavily traded among most industrialized countries (for example, computers and automobiles).

Some observers believe the surplus is a result of Japan's adept workforce and high quality production. Others attribute the surplus to



Every year since 1965, Japan has exported more goods to the United States than the United States has exported to Japan. Japan exports manufactured goods such as cars, machines, and telecommunications equipment to the United States. Americans ship raw materials such as metal, coal, lumber, and food to Japan as well as export services, movies, software, and other products.

the nature of the Japanese system; they believe the Japanese are overregulated and insular. In this view, the Japanese use regulations, such as antitrust legislation, to block foreign suppliers from entering their market. Other analysts find blame in both nations. They say the United States is too consumer-oriented and thus open to imports; Japan is too producer-oriented and thus closed to imports. Although experts disagree on why the trade deficit is so hard to change, they do agree that U.S.-Japan trade problems are a classic example of two clashing economic cultures.

To resolve their differences, the two nations have held years of bilateral trade discussions. But negotiators have had difficulty reaching agreement on the policies affecting cars and car parts. These products—so important to both countries—have come to symbolize differences between the two nations' approaches to economic growth as well as trade. In October 1994, the Clinton administration investigated why the Japanese economy was so closed to U.S. cars and car parts.

A Brief History of Auto Trade. Until World War II, U.S. auto producers had a large share of the Japanese market. After Japan's defeat in 1945 and the U.S. occupation of Japan, American carmakers presumed

that U.S. auto exports to Japan would resume. However, because of fears that Japan would turn to communism, General Douglas MacArthur—then governor-general of occupied Japan—decided to exclude U.S. cars from Japan so that Japanese industry could quickly rebuild. Thus, as America's trade policy goals were pushed aside by national security goals, Japanese carmakers regained their skills in a closed market. Their efforts were helped by the development of a close network of auto parts manufacturers, dealers, and suppliers, as well as bankers. Few foreign carmakers or suppliers of auto parts could break into the Japanese market.

U.S. Trade Representative Mickey Kantor and Japan's Minister for International Trade and Industry Ryutaro Hashimoto met in Geneva, Switzerland, in June 1995 to resolve a dispute between the two countries over U.S. automobile exports to Japan.

Beginning in the 1970s, Japanese carmakers began to export well-made, fuel-efficient, and relatively inexpensive cars to the United States. Japanese manufacturers began gaining U.S. market share to the detriment of U.S. manufacturers because Americans wanted these Japanese cars. By the 1980s, Japanese producers became more sophisticated, producing and exporting not only low-priced cars, but also sport utility vehicles, trucks, and luxury cars.

U.S. Carmakers. America's big three automakers (General Motors, Ford, and Chrysler) continued to produce and export cars around the world in the 1960s, 1970s, and early 1980s. But in the United States they were losing market share because of their failure to produce high-quality small and midsize vehicles. However, by the late 1980s, U.S. carmakers were once again making and selling millions of high-quality small and midsize cars domestically. They worked hard to revamp their product lines, introducing popular well-made cars. Yet Japan was importing few of these vehicles. Why? Was it that U.S. cars and car parts were not good enough to meet the needs of discriminating Japanese consumers? Or were U.S. carmakers unable to crack the Japanese market because of protectionism?

U.S. automobile manufacturers have long alleged that the Japanese market is closed. They believe Japanese carmakers and their suppliers are so strongly linked that American producers cannot capture the market share they deserve. And U.S. carmakers point out that the strong Japanese yen and weak U.S. dollar of recent years proves their point.

Since the mid-1980s, the dollar has declined in value against the yen. This means that U.S. goods should become less expensive in

Japan, because the Japanese people can get more dollars (or dollar-produced goods or services) for their yen. Yet U.S. car producers have not seen their sales go up in Japan. Most American manufacturers allege the reason they could not sell their cars in Japan was a result of "covert protectionism" because Japanese dealers would not sell or service U.S.-made cars. Some observers do point out, however, that German automakers have captured a growing (albeit still small) share of the Japanese market by creating their own dealership network.

U.S.-Japan Carmakers' Dispute. The situation came to a head in May 1995, when U.S. trade negotiators insisted that the Japanese automakers adopt voluntary plans to buy more American parts. Moreover, American negotiators demanded an expansion of auto dealerships in Japan to sell U.S. cars and a relaxation of the safety regulations that block the sales of U.S.-made parts to repair shops.

Japan's manufacturers and trade negotiators refused to meet U.S. demands for many reasons. No Japanese official wanted to give in to American pressure, especially in 1995—the fiftieth anniversary of Japan's surrender to the United States at the end of World War II. Additionally, these were difficult times for Japanese carmakers and their suppliers. Some, like Mazda (25 percent of which is owned by Ford), were losing a great deal of money. The Japanese economy was in recession and suffering from its highest unemployment in decades.

On May 7, 1995, Japan announced that it would complain to the WTO that U.S. policymakers were trying to force private Japanese carmakers to buy American parts. The Japanese argued that the United States, the supposed leader of efforts for freer trade, was practicing unilateral protectionism, demanding "managed trade" (by telling the Japanese trade officials to order their carmakers to buy a set amount of auto parts), and abandoning the WTO—the very international organization it had helped to create.

On May 9, the Clinton administration announced that the United States would apply 100 percent tariffs to Japanese luxury cars by the end of June if the dispute was not settled. The price of these cars to U.S. consumers would rise dramatically. Policymakers also announced that the United States would ask the WTO to examine the structure of the Japanese economy in the belief that it was inherently protectionist.

On June 28, the day before the increased tariffs were to go into effect, the two sides reached an agreement regarding auto parts. Japanese manufacturers announced their increased willingness to buy U.S.-made parts. Japanese government officials said they would move to deregulate the car market, making it easier for U.S. carmakers to export to Japan. Both nations dropped their cases that were waiting to be decided in WTO dispute settlement panels. However, the two sides seemed to see the results of the agreement very differently. Whether

U.S. manufacturers of cars and car parts will increase their sales in Japan remains an unanswered question at this point.

Determining Views on U.S.-Japan Trade Policy

The U.S.-Japan case raises questions about government leadership. Who benefited from this dispute and from this agreement? Why did tensions between the nations escalate? Why did President Bill Clinton and U.S. Trade Representative Mickey Kantor make the dispute so politically important?

Despite the threat of sanctions, consumers of U.S.- and foreign-made cars were barely affected by the dispute. However, if Japanese automakers do increase their imports of U.S.-made parts, Japanese cars may be less expensive for both U.S. and Japanese consumers to buy. Employees of U.S. and Japanese manufacturers were also little affected, although opponents of the threatened sanctions argued that some 70,000 U.S. jobs related to these imports would be lost. On the other hand, many American workers argued that the U.S. auto industry and related businesses have been losing jobs and laying off workers for years because of Japanese economic practices. Shareholders in the car companies did not suffer much either as stocks went down but soon recovered.

The resolution of the U.S.-Japan trade dispute illuminates the strength of the economic and political ties that bind these two nations. Leaders of both countries were well aware of the danger of damaging the U.S.-Japan security and political partnership. The Japanese are among the largest investors in U.S. treasury bills—which fund the federal government debt—and in the stock market. In addition, many Americans and U.S. companies invest in Japanese businesses. Neither side wanted to disrupt this relationship.

Yet, resolving the dispute before the sanctions deadline did not address the fundamental differences between the two nations' approaches to democratic capitalism. Moreover, questions remain. Should the U.S. government be able to order another government to carve out market share for American goods? Will that tactic, which many Americans consider "managed trade," work in the long run? Are threats the best approach to mediating trade disputes between nations that view capitalism differently?

Outlook: Leadership, Trade, and Democracy

President Clinton noted in 1994, "No country can escape the global economy. . . . We must lead it in a direction that is consistent with our values . . . consistent with what is necessary to keep the American dream alive." But that leadership will not be easy for policymakers or the American people. Given Americans' multiple roles in society—as taxpayers, consumers, shareholders, voters, environmentalists, and producers—the American dream has many meanings. Moreover, leadership requires an understanding of other economic cultures. It may not be necessary for nations to become more like the United States to trade with the United States.

Earth Day

An Environmentalist's Perspective on Trade and the Environment

As Americans observe Earth Day each April, they may wonder how global economic interdependence has affected Mother Earth. Have international trade and rapid economic growth hurt the environment since Americans observed the first Earth Day in 1970? Or is trade a stimulus to economic growth and new technologies that could secure the funds for nations to protect Earth's waterways, forests, deserts, cities, and plains? Can nations develop multilateral tools to achieve expanded trade as well as environmental protection? Is trade policy the appropriate venue in which to develop these tools?

EPA DOCUMERICA: Boyd Norton

Before environmental laws were passed, American industry often forged ahead without paying much attention to how production methods could be harming the nation's land, air, and water. Strip-mining operations like this one in Montana were allowed to scar the landscape until 1977, when Congress placed environmental controls on surface mining.

Trade's Effect on the Environment

Trade can both help and hinder environmental protection and conservation. As history has revealed, manufacturing often causes pollution. Moreover, as goods are traded around the world, there will likely be greater pollution and greater energy usage. At the same time, trade stimulates economic growth and technological innovation, raising the standard of living for increasing numbers of the world's people. As incomes rise, nations will have more revenue to invest in pollution controls and cleaner production techniques. Moreover, with rising incomes, these countries may also gain the political will to pass laws and regulations to protect national and global resources. U.S. history provides a good example of this process at work.

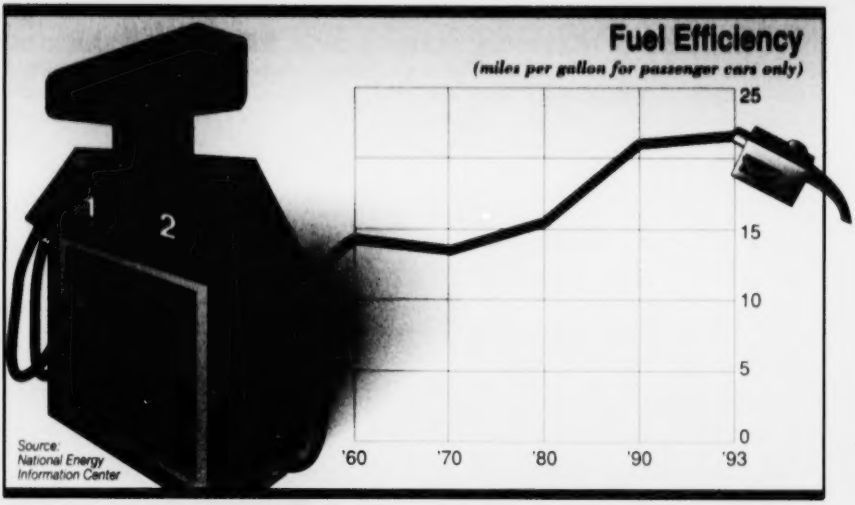
Magnum Photos, Inc. ©1960 Erich Hartmann

In her 1962 book,* Silent Spring, *biologist Rachel Carson alerted Americans to how farm pesticides act as pollutants and sparked the environmental movement in the United States.

The U.S. Example. From 1789 to 1890, Americans altered the landscape in the name of progress. Settlers steadily expanded westward; farmers cleared the land for crops; miners drilled for minerals; and trappers caught foxes, beavers, and bears for pelts. Some animals, such as the buffalo, became nearly extinct. Once-rich farmland was overfarmed and became barren. But throughout this period, few Americans questioned the effect of rapid development on their nation or the world. Perhaps they presumed clean air, water, and ample resources would last forever.

As the nation grew larger and richer, a diverse group of Americans forged a political movement to conserve the environment. These citizens believed that the federal government had a responsibility to preserve at least some of the forests as resources. But it was not until 1962 that biologist Rachel Carson alerted Americans to serious threats to their land and wildlife. Her book, *Silent Spring*, which warned of the dangers of pesticides, inspired many Americans to organize; people pushed for laws and regulations to protect the environment. Some 200 years after the United States was established, the U.S. environmental movement was born. What effect has this movement had on trade?

Environmental Concerns and Trade. Environmental concerns can both stimulate and hinder trade. For example, in the 1980s, to get environmentally safe paper that was not bleached with chlorine, *Greenpeace Magazine* imported paper from a Swedish mill. In the 1970s, to cope with high gasoline prices, many Americans bought



U.S. laws—including CAFE standards—have helped reduce the amount of pollutants that automobiles release into the air by requiring manufacturers to raise the gasoline mileage for the cars they sell. Since 1960, average mileage has increased by more than six miles per gallon.

imported fuel-efficient cars. These foreign cars also reduced pollution emissions and prodded U.S. manufacturers to develop their own fuel-efficient models. Thus, trade and new technologies helped preserve the environment.

However, concerns about the environment can also hinder the flow of trade. This is because environmental regulations at the local, state, or federal level may be perceived as de facto trade barriers, as the example below illustrates.

CAFE Standards. To protect the nation's air, U.S. law sets fleetwide average mileage requirements for both U.S. and foreign automakers selling cars in the United States. These mileage requirements, called corporate average fuel economy (CAFE) standards, are relatively easy for U.S. and Japanese companies to meet because they make both fuel-efficient small cars and less fuel-efficient large cars. They can average out the miles per gallon of their small cars and large cars to meet the overall fuel-economy requirements. But several European automakers such as Volvo and Mercedes produce mostly large, low fuel-efficiency cars. They view CAFE standards as discriminatory: protectionism masquerading as environmentalism. To meet U.S. CAFE standards, some foreign manufacturers have had to alter their production process. Because changing their production method is expensive, these carmakers have found that they must raise prices or take smaller profits.

Although many people agree that the CAFE standards were designed to help meet an environmental goal, some think that the standards are indeed discriminatory. They contend that Congress could have selected other mechanisms, such as a higher gasoline tax, to reduce gasoline consumption. That approach might have been less discriminatory to foreign producers. Some observers believe that key members of Congress deliberately chose to use the CAFE standards approach because those standards could both help protect the environment and help preserve U.S. auto industry jobs and market share.

Will Trade Lead to Lax Environmental Standards?

In the absence of international environmental rules, some analysts believe that less developed nations may use their lack of environmental standards to entice foreign investors. This may pressure some developed nations to reduce their own environmental requirements in hopes of keeping companies from relocating to another country. Consequently, just as some experts believe that world trade is lowering U.S. wages and living standards, some environmentalists think that it may lead to weaker standards of environmental protection.

Is "Greening the GATT" the Answer? In recent years, environmental protection has become a higher-priority goal in many nations of the world. Environmental protection is also becoming an important issue for international trade. There is no consensus that trade law is the best or only place to deal with global environmental issues. However, in 1994, the members of the GATT WTO established a new Committee on Trade and the Environment to examine the effect of trade expansion on ecological concerns.

Making the GATT more "green"—or environmentally conscious—will not be easy. Nations have different environmental priorities and strategies. Their differences with the United States are important because the United States—the world's largest market for foreign goods—has some of the world's most stringent standards of production to protect the environment. Other nations are using international trade law and the dispute settlement mechanisms under the GATT WTO to challenge U.S. environmental protection. Their concerns and actions raise an important question: How can democracy, international trade, and environmental protection be reconciled?

Democracy, International Trade, and the Environment. As citizens in a democracy, Americans believe that the people should determine environmental standards and that these standards should reflect local conditions. However, although local and national solutions may be more democratic, they may not be the most effective way to protect Earth. Local and national standards do not have global reach. Although U.S. law can prevent the importation of elephant tusks from Africa into the United States, U.S. law cannot protect Africa's elephants.

Moreover, trade, environmental protection, and the achievement of democracy may clash internationally. For example, the United States bans the use of certain pesticides at home, but allows U.S. producers of these pesticides to sell them abroad. These banned pesticides, however, may eventually show up in imported food, creating what some call a "circle of poison." Should the United States restrict the export of these pesticides or wait until its trading partners make their own environmental decisions about which pesticides are safe and which are not? Should the U.S. government tell these nations what they can or cannot import? Moreover, who should decide these issues? Environmentalists? Scientists? Government officials? WTO officials? How can global environmental solutions be democratically developed? How can citizens influence the process? The American experience may provide some insights.

Who Decides? In the United States, conservation was not a political issue until the late nineteenth century. No outside forces dictated to the American people when and how they should develop their territory. But what if an international organization had told Americans that their deforestation and rapid development would lead to global warming? What if this organization had forbade the cutting of trees? Would that have been fair? Today, in the wake of concerns about global warming, some policymakers are insisting that Brazil take steps to preserve its existing rain forests, rather than letting its people use their resources. Given the implications for the world as well as Brazil, who should tell Brazil how it should develop? What happens when national environmental policies clash with international trade agreements?

Case Study: Going Beyond U.S. Borders

American efforts to protect the world's dolphins illustrate the difficulty of reconciling global environmental protection with global economic cooperation. Schools of dolphins and large yellowfin tuna swim together. To catch tuna, fishermen use mile-long nets that often

trap and kill dolphins as well. In 1972, the U.S. Congress passed the Marine Mammal Protection Act, which limited the number of dolphins that could be caught while fishing for tuna. This law forced U.S. fishing companies to find new ways to catch tuna.

In 1988, Congress inserted specific language into the act stating that nations that wanted to export tuna to the United States could not exceed two times the U.S. rate of dolphin kill. (This amount was to be gradually reduced, but the law specified that requirements on foreign fishing fleets were always going to be less stringent than those for the U.S. fleet.) Thus, the regulations do not discriminate or provide U.S. producers with a market advantage over foreign producers. Moreover, the regulations appeared to work. But angry Mexican fisherman claimed that the tuna import provisions of the act were, in effect, trade barriers; they took their case, which some environmentalists called "Flipper vs. GATTzilla," to the GATT members.

In August 1991, a GATT panel comprised of international trade law experts found that the tuna import embargo was "GATT illegal" because the United States could not use such law to protect dolphins that swim beyond U.S. boundaries. The panel had problems with the approach and the reach of the law. Regarding the law's approach, the panel found that the U.S. embargo was discriminatory because it did not simply ban a product (tuna) but banned the process used to "make" that product (in this case, killing dolphins along with tuna). In other words, the panel said the United States could not use this "process standard." Regarding the reach of the law, the panelists found that the Marine Mammal Protection Act was an attempt to make U.S. environmental laws reach beyond U.S. borders and waters. Thus, the panel concluded that the approach and reach of the act used by the United States to protect dolphins made U.S. environmental priorities supersede the policy priorities of other nations and therefore was inherently discriminatory.

Environmentalists in the United States and around the world saw the panel's decision as unfair. They pointed out that the GATT permits import bans on products made with prison labor, another process standard, but that the judges on the panel interpreted the rules of the GATT to contain no similar provision for environmental standards. Some environmentalists feared that the decision signaled that countries cannot limit importation of products that have production or harvest methods that may harm the environment. Many environmentalists also objected to the dispute panel procedure. The meetings of the three-judge panel were not open to the public or nongovernmental organizations. Given both the decision and its potential effects on environmental protection, some environmentalists fear that American democracy (which fostered the environmental movement) could be

Environmentalists have long voiced concern over the deaths of thousands of dolphins that are caught in fishing nets. Here, Japanese fishermen kill beached dolphins, claiming that the dolphins eat their catches of tuna and squid.

subverted by international trade law (which could undermine the environmental movement).

The tuna/dolphin case remains unresolved. Both U.S. and Mexican leaders were so concerned about the implications of the panel's decision that they worked together to block the GATT's general council's consideration of the panel ruling. Thus, there is still no guidance regarding whether such process standards are, in effect, trade barriers. Moreover, many nations use similar process standards to achieve their environmental goals. For example, the European Community forbids import of furs from countries where leghold traps are permitted. The Netherlands bans timber taken from forests that are not being sustained by plantings of new trees. These measures could be challenged under the GATT.

International Trade vs. Environmental Protection. Some analysts fear that environmental trade disputes will force policymakers to choose between expanding trade and protecting the environment at

the international level. International environmental treaties may be challenged under international trade laws. For example, under the Montreal Protocol—an agreement to prevent the destruction of the ozone layer—countries that have not signed the Protocol cannot undermine its effectiveness. However, in the event of a dispute between countries involving trade and the environment, which treaty should take precedence, the GATT or the Montreal Protocol? Nonparticipating countries may view the Protocol as discriminatory. Under international law, the most recent treaty holds sway. But if one party has not signed both agreements, that nation could argue that the GATT WTO should rule. This is what environmentalists fear.

Outlook: Trade and the Environment

A popular bumper sticker reads "Think globally, act locally." But most environmentalists realize they must also act globally. Because pollution knows no borders, the people of the world will need international solutions if they want to protect their environment. However, because nations have different cultures and different economies, Americans cannot force all countries to have similar environmental standards. Some nations will take whatever steps are necessary to encourage investment, even if it means allowing or ignoring environmental deterioration. Other nations are willing to slow their economic growth to avoid harming Earth.

U.S. environmentalists have found they cannot dictate international standards. Ultimately, it will be the responsibility of all nations to find compromises that reconcile economic growth and environmental protection with democracy.

Independence Day

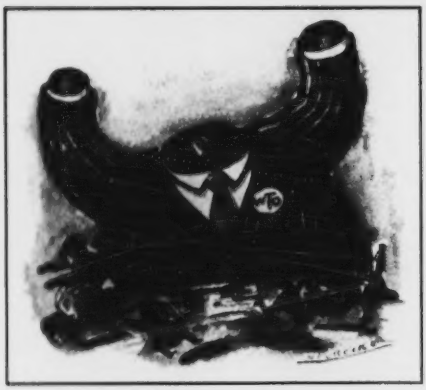
A Citizen's Perspective on Trade and Economic Interdependence

On July 4, as Americans celebrate their independence from Great Britain, they may wonder how increasingly open global markets for goods, services, and technology may affect the democracy in which they live. How does trade policy affect U.S. sovereignty? With today's new trade agreements, will Americans still have the ability to determine their own rules and regulations? How will growing international economic interdependence affect federalism—the balance of state and federal power? How does economic interdependence affect American political independence?

Fears on the Left and Fears on the Right

In June 1995, an earnest young woman from Greenpeace—a worldwide environmental organization—went door to door in Arlington, Virginia. She sought to warn citizens that elected officials in Washington were weakening policies designed to protect the nation's water supply. With both sadness and urgency, she explained that the 104th Congress was planning to "gut" the Clean Water Act. She stressed that this was the second step by multinational corporations to influence Congress to roll back hard-won environmental standards. Her neighbors, many of whom were conspiracy theory skeptics, asked what was the first step in this conspiracy. She cited congressional approval of the GATT/WTO in 1994 as evidence that multinationals and members of Congress were acting together to reduce consumer and environmental protection.

The Greenpeace activist was angry that government policymakers were weakening government regulation of business because she



Some Americans worry that the WTO could undermine U.S. sovereignty by finding federal, state, and local laws in violation of GATT policies.

believed that only the federal government could ensure that business did not pollute the water supply. And she was frustrated that policymakers were allowing business leaders to use international law and an international government organization to weaken U.S. environmental regulations. She had concluded that instead of regulating and policing international corporations, the GATT WTO would establish a world economic government dominated by giant corporations.

Similar fears were echoed by an angry spokesman for the Michigan Militia in an interview on National Public Radio around that same time. He cited congressional passage of the GATT WTO as evidence that the federal government had become corrupt and removed from the interests of the American people. He said those members of Congress who voted for what he believed was a transfer of U.S. sovereignty to the GATT WTO had betrayed their country.

The young woman from Greenpeace and the member of the Michigan Militia represent two extremes in U.S. politics—one calling for more government intervention and the other, for less intervention. Yet the American people, many of whom fall politically between these two opinionated people, share many of their fears about global economic interdependence. They wonder whether American policy objectives and institutions can survive in the world economy.

The GATT/WTO and U.S. Sovereignty

Concerns about the GATT's effect on U.S. sovereignty are not new to the debate over U.S. trade policy. They were expressed by Democrats and Republicans, conservatives and liberals, isolationists and internationalists, and freer traders as well as protectionists during the first round of GATT negotiations in 1947. And they were echoed in the 1994 congressional debate over approving the Uruguay Round of the GATT, which created the World Trade Organization.

However, it is ironic that concerns about U.S. sovereignty come at the same time that members of Congress are reconsidering not only

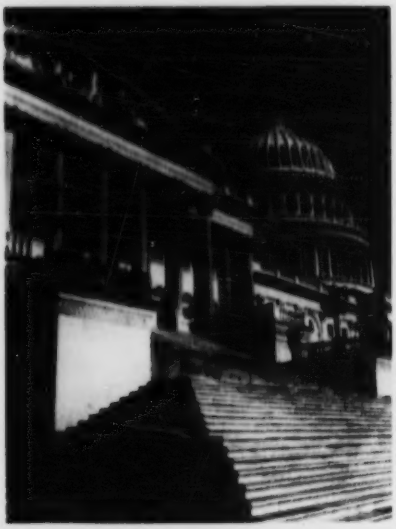
what the federal government should do, but also what is the appropriate balance of power between the states and the federal government. While debating what functions should go back to the states, policymakers also must decide what government can and should do in the world economy and what should be the relationship of international institutions to the federal government.

It has become a cliché to talk about the "global village," but until it becomes possible to live on a space station, there is no other village to move to. Many people argue that for everyone to get along peacefully, the people of the world need international rules and assurance that all nations will live by those rules. As Harlan Cleveland, a Truman administration official, noted, the global market needs "a global public sector to keep it more or less free by keeping it reasonably fair" while balancing "liberty and equality" with "efficiency and fairness." These are the values of democratic capitalism that many Americans cherish and want to encourage among nations.

However, although many American men and women recognize that world problems need effective global responses, they are unsure that international institutions can do the job. They point to the failure of the United Nations to prevent violence in Bosnia and Somalia. And they are afraid that global laws and institutions will affect the ability of citizens to promote environmental health and safety standards through laws or regulations made at state or local levels, where government is closest to the people. These fears are understandable, but may not be justified, as the following hypothetical example illustrates.

Case Study: Recycling and Reconciling

Suppose the state of Delaware enacts regulations to encourage recycling by adding a one-cent tax on beer sold in cans and a two-cent tax on beer sold in bottles. U.S. brewers produce beer in both bottles and cans. However, many foreign breweries export beer in bottles only. Suppose Germany exported a popular beer in bottles to Delaware. If German brewers saw the Delaware tax as discriminatory, they might complain to the WTO about Delaware's actions. If a WTO dispute settlement panel found such a tax to be the equivalent of a trade barrier, the U.S. government would have three policy alternatives. The government could (1) ignore the WTO ruling and let Delaware's bottle tax stand; (2) direct Delaware to do away with its tax; or (3) make trade concessions to Germany. All three choices would require government policymakers to reevaluate both the role



The U.S. Capitol building symbolizes independence and freedom to millions of Americans. They, like the members of Congress who work in this building, have varying opinions about U.S. independence in an interdependent world.

and organization of government at all levels—local, state, federal, and international. In resolving such a trade dispute, the WTO could not force changes in U.S. law, but ultimately, all levels of government would have to adapt.

The Three Choices. What are the implications of each of the three paths? First, if the United States ignores the WTO ruling and allows Delaware to continue to use its bottle tax, Germany could slap higher tariffs on selected U.S. goods or services. In this case, the federal government would have supported Delaware's environmental protection policy, but possibly alienated Germany, an important trading partner. Moreover, some U.S. exporters that ship goods to Germany could be affected by German retaliatory tariffs.

Alternatively, if the U.S. government directs Delaware to abandon its incentives to achieving environmental protection, the federal government would be telling a state government and its people that such environmental policies are less important than national trade policy. This change in priorities is what the woman from Greenpeace fears.

There is one more alternative. The federal government could allow the state's environmental incentives to stand while lowering U.S. trade barriers to German goods in other sectors, thereby compensating Germany. Federal-state relations, in this instance, would be preserved, but with other policy costs. Some U.S. businesses could be harmed if the government were to lower trade barriers for some German goods.

Whatever path government officials were to choose, U.S. policy priorities might have to be adjusted. Such an adjustment is a by-product of economic interdependence. However, this hypothetical example illuminates why some Americans may be afraid of international economic interdependence. The fears about the GATT/WTO are fears about the survival of American policy objectives and institutions in a world Americans cannot control. Whatever their failings, international institutions such as the GATT/WTO hold the potential to give both citizens and governments some control over the global economy. At the same time, however, there is no constitutional road map for how trade policy can fit smoothly with other national and international policy goals and institutions.

Outlook: Building Public Understanding of Economic Interdependence

Clearly, the ability of the GATT/WTO to open markets, settle trade disputes, enforce trade rules, and help produce rising standards of living for more of the world's people will depend on the commitment of its members. These organizations cannot endure without public legitimacy, which, in the United States, is derived from a greater degree of public understanding about how global economic interdependence affects the U.S. economy and democracy.

Some Americans may not like international organizations, but in a world where business transactions, corporations, and technology go far beyond national borders and where global problems are increasingly difficult to resolve, many would maintain that institutions such as the GATT/WTO are necessary to develop and enforce solutions to global challenges. Although the United States cannot force its standards of decisionmaking upon the WTO, this does not mean that the United States and its people do not benefit from the trade organization.

In Senate testimony, consumer advocate Ralph Nader noted about the WTO, "When historians look back on this period . . . either they will focus on it as a moment in which the Congress resisted the anti-democratic WTO or they will view it as the moment in which Congress ceded authority to safeguard the interests of this country and its inhabitants to this new autocratic international body." Some Americans agree with Nader. Others, however, think that he has underestimated the flexibility of American democracy and the benefits of institutions such as the World Trade Organization. They believe the opportunity to reconcile American democracy and global economic interdependence still exists. It is up to the American people to make these issues an integral part of the ongoing debate over what government should do and how it should do it.

GLOSSARY

absolute advantage—a country's or company's ability to produce high-quality goods or services at a lower cost and greater efficiency than another country or company, given the same resources

AFL-CIO—American Federation of Labor and Congress of Industrial Organizations; the nation's largest labor organization

bilateral—involving two sides (or nations)

Cold War—a period after World War II (1945-89) marked by political tension and an arms race between the Soviet Union and the United States

comparative advantage—production of items in which a country's or company's relative efficiency is greatest compared to other countries or companies; to maximize the benefits from trade, a firm or nation should concentrate production on items in which it has the greatest relative efficiency

computer chip—an integrated circuit containing many elements connected on a single unit, or chip; a basic component of many electronic devices

Council of Economic Advisers—a group of economists, appointed by the U.S. president, who study economic problems and recommend national economic policies

de facto—existing but not officially recognized or legally established

exports—goods or services the people of one country sell to another country

federalism—a political system that divides powers between the national and state governments

freer trade—belief that barriers to trade hinder the workings of markets; thus, policymakers should erect as few trade barriers as possible

General Agreement on Tariffs and Trade (GATT)—an agreement, first negotiated in 1947, whereby the twenty-three founding trading nations hoped to increase world trade by lowering trade barriers; the eighth round—or Uruguay Round—of GATT talks established the World Trade Organization in 1994

globalization—the movement toward markets or policies that transcend national borders

global warming—heating that occurs when carbon dioxide traps the Sun's heat near Earth's surface, causing Earth's temperature to rise

gross domestic product (GDP)—the total value of goods and services a nation produces in a given year

imports—goods and services the people of one country buy from other countries

Industrial Revolution—historical period, lasting throughout most of the 1800s, when the economy of the United States and many European nations shifted from an agricultural to a manufacturing base

interest—on a loan, this is the predetermined amount of money a borrower must pay for the use of borrowed funds

managed trade—a trade policy in which the government sets numerical targets or market share goals on trade flow (i.e., a U.S. software producer should have 10 percent of the software market in France)

market—trade or traffic in a particular good or service; place where goods or services are bought and sold

multilateral—involving more than two sides (or nations)

multinational corporations—companies that have branches and operations in many countries

North American Free Trade Agreement (NAFTA)—agreement between the United States, Mexico, and Canada to gradually eliminate most barriers to trade and investment among these countries and to follow specified agreements to protect workers and the environment

ozone layer—layer of Earth's atmosphere that shields the planet from the Sun's harmful rays

process standard—a regulation outlining the way a product has to be made or prepared

productivity—efficiency with which goods and services are produced, as measured by the quantity produced per person per hour

product standard—a regulation affecting the design or safety of a product or service

protectionism—policy reflecting the belief that domestic manufacturers and workers need to be shielded from foreign competition by placing trade barriers on foreign goods

quota—a restriction on the amount or number of a good that can be imported into the country

real average hourly earnings—the average wage per hour, adjusted for inflation

regressive tax—a tax such as a sales tax that applies equally to every purchaser but which results in taking a larger percentage of income from a low-income person than from a high-income person

service—action or activity for which a consumer is willing to pay; sometimes called an "invisible" (examples include health care, accounting, and legal work)

Adam Smith—a Scottish economist who argued that markets, not governments, should regulate the economic relationship among people; an early advocate of freer trade, he wrote *An Inquiry into the Nature and Causes of the Wealth of Nations*

sovereignty—the status of a nation and its people whereby they are independent and free to make political and economic decisions for that nation

tariff—a tax on imports

trade deficit—condition in which the value of a nation's imports is greater than its exports

trade liberalization—elimination or reduction of trade barriers such as quotas and tariffs

World Trade Organization (WTO)—created by the Uruguay Round of GATT to provide a permanent arena for member nations to address international trade issues and oversee implementation of trade agreements negotiated in the Uruguay Round

yen—the Japanese currency

For Further Reading

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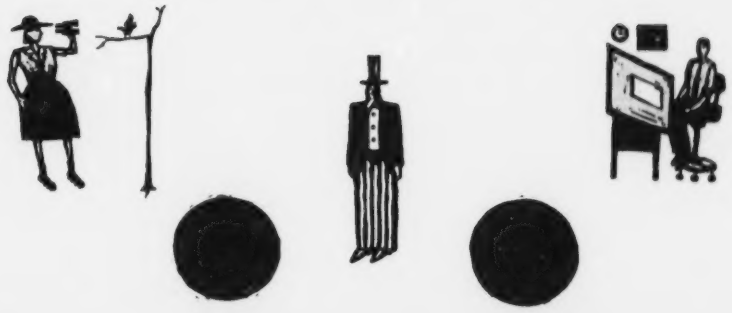

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TRADE IS EVERYBODY'S BUSINESS

TEACHER'S GUIDE

TRADE IS EVERYBODY'S BUSINESS

TEACHER'S GUIDE

Developed by
Mary Madden, Tim Walker, and Charles R. Sass
with Susan A. Aaronson, Ph.D.

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To the Teacher

Trade Is Everybody's Business, by Susan A. Aaronson, Ph.D., is designed to help your students understand how and why trade has become such an important part of the American economy and how trade and economic interdependence shape government policy. This teacher's guide provides comprehensive lesson plans to enhance student understanding of this complex topic. This guide offers ideas for classroom activities, as well as a pretest, posttest, and classroom handouts with accompanying answer keys.

Goals

This guide should help your students to:

1. understand how U.S. trade with other countries affects Americans' daily lives.
2. define common terms and concepts relating to trade and economic interdependence.
3. understand why various segments of the American population have differing perspectives on trade and the world economy.
4. explore how trade requires continuing dialogue, cooperation, and partnerships among the policymakers and citizens of many countries.

Features of the Units

This teacher's guide contains the following components:

Objectives

The student objectives for each unit include both cognitive and affective goals to help you measure student learning.

Key Terms

The key terms that appear in each unit will help students understand concepts discussed in the text. The lists include words defined in the glossary of *Trade Is Everybody's Business*, as well as other terms that your students need to know.

Motivator

Each unit contains a motivator. Motivators are activities designed to capture student interest, introduce the class to the chapters in *Trade Is Everybody's Business*, and encourage active participation by the entire class.

Student Activities

Each unit of the guide contains student activities that require students to exercise their critical-thinking skills and do independent research. The activities also emphasize important information from the corresponding text.

Student Pretest and Posttest

The student pretest and posttest allow you to evaluate student knowledge about trade issues both before and after teaching about trade. This pretest and posttest should help you determine the effectiveness of the *Trade Is Everybody's Business* materials and their usage.

Student Handouts

Student handouts for each unit can be reproduced for classroom use. Each handout relates to a student activity.

Answer Key

The answer key provides answers to questions on the pretest and posttest and for student handouts 1, 2, 3, 4, 5, and 8.

Tips on Leading Effective Class Discussions

All of the activities in this guide involve some class discussion. The following procedures will make your discussion more effective.

- Structure class discussions to involve the entire class; avoid creating a dialogue between yourself and only a few students. Make a special point of encouraging students to speak directly to one another rather than to you.
- Sequence your questions from those that involve simple factual recall to those that demand more complex analysis. Questions that ask students to list or identify are useful because they promote class participation and allow students to answer questions correctly. But such questions do not provoke analysis. A factual recall question such as, "What three nations signed the North American Free Trade Agreement?" should progress to a more thought-provoking question like, "What is the purpose of the North American Free Trade Agreement?"
- Incorporate "wait time" into your discussion periods. You should wait for all students to respond to a question; if students cannot respond successfully, rephrase the question and try again.

Tips on Conducting Small-Group Work

Small-group work is an important part of the activities in this guide. Stress to students the need to:

- listen
- solicit opinions from all group members
- focus on issues rather than on personalities
- focus on the assigned topic and task
- resolve conflicts
- move the discussion along
- probe the responses of other students

Indicate to students that they should work to guarantee that everyone in their group participates. After the activity, conduct an examination of group participation so that students understand that their ability to work together is as important as the conclusions they reach.

Unit 1—Introduction

Student Objectives

After completing this unit, students should be able to:

1. list foreign-made products that the United States commonly imports.
2. discuss why a person's view toward trade and trade policy may be affected by his or her perspective.
3. analyze a cartoon and examine a chart.
4. explain the importance of trade and why nations trade.
5. describe the history and background of the GATT and the WTO.

Key Terms

absolute advantage
Cold War
comparative advantage
computer chip
economic dislocation
exports
General Agreement on Tariffs and Trade (GATT)
goods
imports
interest
North American Free Trade Agreement (NAFTA)
protectionism
services
trade policy
unemployment
Uruguay Round
World Trade Organization (WTO)

Pretest

Before you begin your first lesson about trade and trade policy, you might want to find out how much your students know—or think they know—about the subject. Following the student activities, you will find both a pretest and a posttest. Distribute copies of the pretest and give students enough time to complete it. This exercise should help you measure how much your class members know about the subject at the beginning of the lesson and show you areas that you might want to emphasize as you proceed. After completing the activities, use the posttest to find out how far students have come in their knowledge about trade. Answers for both tests can be found on page 39.

Motivator

Before students read the chapter, ask them to make a list of all the products—food, clothing, cars, appliances, and so forth—they come in contact with from now until the class meets again. They should record the country of origin, based on the product's label or their best guesses. In a brainstorming session the next day, list items from students' lists on the board and the countries where products were made.

Ask why Americans buy so many foreign-made goods. Students may cite price, quality, prestige, lack of comparable domestic products, and other reasons. Review the list on the board and discuss which factors contributed to their decision to buy.

Broaden the discussion by asking if students would be willing to do without these goods. Why or why not? Is it beneficial for the United States to engage in international trade? What are the drawbacks? Conclude by asking students to read "Twenty Minutes Before School" on page 12 of *Trade Is Everybody's Business*. Were they surprised at the many references to foreign-made goods and trade in this real-life situation?

Student Activities

1. Begin by pointing out the glossary in *Trade Is Everybody's Business*. Emphasize to students that to understand the political and economic concepts surrounding trade, they must have a basic understanding of words and terms associated with the topics. Then, distribute **Student Handout 1—Key Terms and Concepts** and ask them to complete Part I of the handout as they read the "Introduction." After they have finished the handout, carefully review each item in Part I with the class.

Next, turn to Part II of **Student Handout 1.** Using each of the listed terms, students should write a short paragraph explaining how their view on trade as a worker could be different from the perspective of a consumer. You may want to allow students time in class to write their paragraphs or use Part II as a homework assignment. When students have finished, ask several to read their paragraphs aloud. Emphasize in the discussion that follows that Americans view trade differently, depending on their perspectives.

2. Point students to the cartoon on page 7 of *Trade Is Everybody's Business*. Then, lead a discussion using the following questions:

- What is Uncle Sam handing to the man from Brazil? Why is Uncle Sam buying coffee from Brazil?
- What is the Brazilian buying with the dollar he got from Uncle Sam?
- What is the Englishman buying with the dollar?
- What is the man from Holland handing to Uncle Sam? How many dollars is he giving Uncle Sam for the tractor?
- Did trade benefit the United States in this sequence? In what ways? Did all of the other countries benefit from these exchanges?
- Could some of these countries have been harmed by these exchanges? In what ways?

3. Ask students, by a show of hands, if they favored or opposed congressional approval of the Uruguay Round of the GATT in 1994. If they are not sure, ask them to raise their hands if they think they did not know enough about the treaty to favor or oppose it. Tally the results and place the numbers on the board. Ask students to compare the class results with the chart titled "Trade Ignorance" on page 11 of the text. Ask students who did not know enough to register approval or disapproval what information they would need to know about GATT to make an informed decision.

Next, give students a few minutes to read "The GATT and the WTO" beginning on page 11. Then, take another survey. Did the original tally change? Ask students to explain why the population needs to know about trade policy and economic interdependence.

Finally, students should ask five members of the community if they favored or opposed congressional approval of the Uruguay Round of GATT. Students may wish to ask the people they poll to tell what they know about GATT and the WTO. How many could accurately describe the treaty? How many did not have enough information? How could an apparent lack of citizen knowledge affect the nation?

4. After students have read the chapter, ask them to respond to these "what ifs."

What if:

- the United States closed its doors to all trade—both imports and exports?
- the U.S. government allowed only U.S.-made VCRs to be sold in this country?
- the Pentagon decided it would only buy U.S.-made computer chips for its weapons systems?
- people and nations did not trade?
- the United States was not rich in natural resources?
- there were only "winners" and "losers" in international trade?
- farmers in Illinois could find a way to grow high-quality coffee as efficiently as they grow corn?
- U.S. technology fell behind the technology in other industrialized countries?

Conclude by reinforcing the importance of trade to the United States and the world and pointing out that Americans have differing opinions about trade depending on their perspectives.

5. Give each student a copy of **Student Handout 2—The GATT and the WTO.** You may want them to complete the handout in class or to use it as a homework assignment. After students have completed the handout, proceed through each item, expanding on any that you think appropriate. Ask students if they think the World Trade Organization (WTO) will lead to freer trade among the nations. Can they think of reasons why there was so much debate in Congress over whether the United States should approve the agreement that created the WTO? Urge your students to look for news stories in print and on television that deal with U.S. trade as it is affected by the WTO.

Unit 2—Labor Day: A Worker's Perspective on Trade

Student Objectives

After completing this unit, students will be able to:

1. speculate on their future in the workforce.
2. analyze and compare graphs.
3. examine the relationship of trade to wages and working conditions.
4. debate the pros and cons of protectionism and freer trade.
5. discuss how trade affects the businesses and people of their community.
6. express opinions about global competition from various perspectives.

Key Terms

American dream
child labor laws
developing countries
global economy
labor standards
North American Free Trade Agreement (NAFTA)
real wages
services
unemployment
wage inequality
wage stagnation

Motivator

Many Americans believe that the weakening of the "American dream"—the opportunity to succeed economically—can be blamed, in large part, on the globalization of the economy. Others think that trade and economic interdependence will benefit the American worker.

Write "American dream" on the board and ask students to brainstorm thoughts and ideas that come to mind when they think of that phrase. Remind them that by early next century they will be in their mid-20s and in the workforce. Are students optimistic or pessimistic about the state of the American economy? Do they think that they will make more money than their parents? Will unemployment be higher, lower, or about the same? Will the standard of living in the United States be higher in the twenty-first century than in the twentieth century? Why or why not? Record students' responses on the board.

Student Activities

1. After students have read "Labor Day: A Worker's Perspective on Trade," hand out **Student Handout 3—Graph Analysis: Trade and Wages.** Allow students adequate time to study the graphs on pages 18 and 35 of the text and answer the questions on the handout. Then discuss the two graphs with the class, beginning with "The Growing Importance of U.S. Trade" and following with "Real Hourly Wages by Level of Education." What is the trend for trade as a percentage of the United States' GDP? What has been the general trend regarding wages for men and women in America since 1973? What conclusions do class members draw simply by comparing these two charts? Ask students with conflicting conclusions to defend their answers.

Next, ask students to reread "Is Trade to Blame?" on page 19 of the text. What is the relationship between trade, jobs, and wages? The views of Paul Krugman, a well-known economics professor at Stanford University, are cited on page 20. What is Krugman's perspective on the correlation between increased trade and decreasing wages? What other factors besides trade could contribute to wage stagnation and inequality? Conclude by asking students if these problems are a price of the global economy. Are these problems an acceptable or unacceptable cost? Is protectionism the answer to fighting wage stagnation and inequality?

2. Organize debates on the following statement:

The United States should protect American industries from foreign competition.

Structure these debates in any way that works well for your class situation. You may want to form small teams of students to debate each side of the issue, or have individuals debate one another. Assign either the affirmative or negative position to the teams or individuals and give them time to prepare.

When debaters are ready, choose a moderator to keep the debate organized and moving. One student should serve as a timekeeper. The affirmative side goes first followed by the negative—each for the same length of time. After both sides have presented their cases, each will have up to two minutes for rebuttal.

Appoint a panel of judges for each debate, or simply allow the whole class to judge the "winner." After each debate, ask the class which side they thought was the most persuasive and why. Discuss the strongest arguments made by each side.

Were students swayed by emotional appeals or by arguments based on fact? Did the arguments change anyone's mind regarding the issue? Point out that in a world of increasing globalization and interdependence, Americans need to be educated about trade.

3. Students should identify local residents whose livelihood is affected by international trade and invite several to speak to their class. This group could include factory owners, retailers, bankers, factory workers, and so forth. Ask students to prepare questions for the speakers in advance. You should make clear to speakers exactly what you want them to talk about; show them students'

questions before they speak. Tell your speakers the topics that you have been discussing in class so they stay focused on issues with which students are familiar. Urge speakers to ask questions of students, getting them to think about all sides of a particular issue. Make sure that if you have a speaker who strongly favors freer trade, you seek another speaker who believes his or her source of livelihood should be protected from foreign competition. Students should look for obvious differences of opinion between business owners and workers regarding protectionism or freer trade.

4. Before doing this activity, students should read the hypothetical example of the Smith Company in the opening paragraph under "The Indirect Effect of Global Markets on Wages" on page 21 of the text. Students should then be directed to write one of the following one-page letters from the perspective of someone who could have a part in this scenario. (Assign letters any way you wish.)

- A letter from Caroline Smith to her workers explaining why she may move the factory.
- A letter to Caroline Smith from one of the Smith Company's largest stockholders who is unhappy with the company's profits.
- A letter from Caroline Smith to a top government leader in Malaysia.
- A letter to Caroline Smith from a real estate developer who builds factories in Malaysia.
- A letter to Caroline Smith from one of her assembly line workers who makes $15,000 a year.
- A letter to Caroline Smith from one of her engineers who makes $50,000 a year.
- A letter to Caroline Smith from the mayor of the Texas town where Smith's company is located.

Tell students that their letters can be embellished, as long as they reflect the points that these letter writers would likely express. After everyone has finished writing, ask several students to read their letters aloud in class.

After each letter has been read, spend a minute or two discussing the points that the writer made and whether they were accurate. Which of these letter writers would likely come down on the side of protectionism? Which would be most inclined to favor freer trade?

5. Although the United States adheres to higher standards for workers than do many other countries, in 1995, federal officials discovered garment "sweatshops" in California in which illegal immigrants were working for little pay and in terrible conditions. The retailers who bought products from these factories denied knowledge of these operations. Many Americans were shocked that something like this was going on in their country.

First, students should read "Case Study: Trade and Workers' Rights" on page 23 of the text. Then, ask them to clip newspaper and magazine articles about working conditions for laborers in and outside the United States and/or how U.S. manufacturers may be reacting to price competition from importers who are buying products made with low-cost foreign labor. Discuss the articles as they come in and pin them on the bulletin board.

What do students see as solutions to problems brought on by competition with low-cost foreign labor? Should companies in industries that have trouble competing be protected by trade barriers? Should Americans stop buying products made by workers who toil in miserable conditions? Should labor unions organize low-wage immigrant workers and take steps to try to improve wages and conditions of workers overseas? Should labor standards and workers' rights be incorporated into the next GATT/WTO agreements? What should happen to U.S. companies that employ immigrants in "sweatshop" conditions? Is freer trade the "culprit" here, or are there other factors involved?

Unit 3—Happy Holidays: A Consumer's Perspective on Trade

Student Objectives

After completing this unit, students will be able to:

1. define tariffs, quotas, and standards and explain their effects on consumers, workers, and businesses.
2. list and compare consumer products made in both the United States and overseas.
3. discuss the effects of freer trade and protectionism on various groups with differing perspectives.

Key Terms

de facto (covert) trade barriers
domestic products
multilateral trade liberalization
overt trade barriers
productivity
protected industries
quotas
regressive tax
standards
supply and demand
tariffs

Motivator

Begin by writing the following information on the board:

Tape player A	**Tape player B**
automatic rewind	no automatic rewind
two batteries	four batteries
ten ounces	nine ounces
made in Japan	made in the United States
$19.95	$24.95

Ask the class to imagine that all of them are full-time workers and that they have decided to buy a portable tape player/radio with earphones using their first paycheck. Which of the two described on the board would they buy? Tally with a show of hands and write the numbers on the board.

Then tell them to imagine that for every five students who buy the foreign-made product, one U.S. worker will lose his or her job in the electronics industry. Would any students who first said they would buy the foreign-made device now switch to the American-made tape player to save jobs? Would they switch to the U.S.-made product if the job layoff could possibly affect one of their relatives or friends who works in a domestic electronics company?

Student Activities

1. Abraham Lincoln once said: "I don't know much about the tariff. But I do know that when I buy a coat from England, I have the coat and England has the money. But when I buy a coat in America, I have the coat and America has the money." Ask class members to write a letter to Lincoln either agreeing with his statement or opposing it. Depending on their position, students should explain in their letters the virtues of free trade and the dangers of protectionism or vice versa. After students read their letters to the class, discuss the issue and ask them how the protection vs. free trade issue affects the United States today. Are students in favor of a more protectionist policy or do they prefer a freer trade policy? Would it make a difference to students if the coat factory in England was American-owned or vice versa?

2. Working in pairs, ask students to create a list of products that Americans both make in this country and import from other countries such as cheese and computers. Write the products on the board. Next, assign one product to each student. Students should then go to a local store and compare the features and prices of the domestic and imported product. They should try to find out which is the best seller.

Then, in a class discussion, have students report the results of their research. Encourage class members to draw conclusions from the data. Were consumers willing to buy American-made goods in the face of less-expensive goods? Students may wish to write an article explaining their findings and submit it to their school or local newspaper.

3. After students have read "Happy Holidays," review these terms: tariffs, quotas, and standards. Then, distribute **Student Handout 4—A New Trade Policy,** and have students complete the handout individually. Next, divide your class into four groups: consumers, union autoworkers, domestic business executives, and foreign car company shareholders. Give groups ten minutes to decide and write down their collective reaction to this new policy. They should decide whether they support or oppose the plan and tell why. Those groups that oppose the new policy should be prepared to explain what they would like to see in an alternative policy. Then, a spokesperson from each group should explain its position on the new policy.

After each group has expressed its position, point out the differing opinions. Students should come away from the discussion realizing how difficult it is to get people from various groups to agree on any policy, including trade policy.

4. After students have read "Case Study: The Issue of Equity," beginning on page 33, spend a few minutes discussing the statement that ". . . protectionism works like a regressive tax. It hurts poorer families more than rich or middle-class families." Explain the difference between a progressive and regressive tax. (The federal income tax, which taxes people with higher incomes more than people with lower incomes, is an example of a progressive tax. A cigarette tax, which taxes all buyers of cigarettes the same amount regardless of income, is an example of a regressive tax.)

Then move into a discussion of why protective tariffs work like a regressive tax. Students should understand that a tariff on a necessity like clothing harms low-income families more than high- or middle-income families because lower-income people need to spend a greater proportion of their incomes on a necessity like clothing than do higher-income people. This leaves lower-income families with less money to spend on other items. Next, make a grid on the left edge of the chalkboard. Use the example below as a guide.

Name of Group_____

	Tariff	**Quota**
Help?		
Hurt?		

Now, ask students to take the perspective of a low-income consumer. How would a tariff and/or quota on clothing (or other examples) help them? How would such a trade barrier hurt them? Write responses in appropriate places on the grid. Leave the first grid in place and draw another like it. Change the perspective. How would tariffs or quotas help or harm wealthy consumers? Taxpayers? Shareholders in a protected domestic company? Shareholders in a foreign company that must pay tariffs? Complete as many grids as you need. Conclude by pointing out that one trade practice can affect people differently, depending on their perspectives.

Unit 4—Presidents' Day: A Citizen's Perspective on Trade and Democracy

Student Objectives

After completing this unit, students will be able to:

1. discuss possible reasons for the U.S. trade deficit with Japan.
2. argue for either a freer trade or more protectionist U.S. trade policy with Japan.
3. interpret a political cartoon.
4. debate issues surrounding U.S. government involvement in the economy and U.S.-Japanese trade relations.

Key Terms

bilateral
dumping
free trade
gross domestic product
managed trade
markets
multilateral
sanctions
Adam Smith
supply and demand
trade deficit
trade liberalization
yen

Motivator

Write "United States" and "Japan" on the board. Turning first to the Japan column, ask students to call out brand names of Japanese products that Americans commonly buy. Write their responses on the board. They will probably have little trouble coming up with names like Toyota, Nissan, Honda, Sony, and many others. Then, focusing on the United States column, ask them to call out brand names of American products that they think are commonly sold in Japan. It will soon become evident that coming up with the second list is more difficult. You might want to have everyone turn to the chart on page 40 of the text, "U.S.-Japan Trade." Point out that while the United States did export $53.5 billion worth of goods and services to Japan in 1994, Japan mainly bought raw materials such as lumber, food stuffs, and scrap metals. However, there are U.S. manufacturers such as Boeing and Motorola that successfully sell their products in Japan. Ask students what they think causes the trade imbalance between Japan and the United States. Is the trade imbalance a problem? Can the American people do anything about it? Can the president or

Congress do anything about reducing the trade deficit with Japan? Alert students, as they read this chapter, to look for examples of how government leaders make trade policy and involve the American people in the choices they make.

Student Activities

1. *Trade Is Everybody's Business* takes a brief look at the U.S.-Japan auto trade issue, but newsmagazines and opinion journals through May, June, and July 1995 offer more in-depth information and perspectives. Urge students to explore other sources for a more complete picture as they proceed with this activity.

After researching the June 1995 U.S. trade agreement with Japan, ask students to write a letter to the president, one of their U.S. senators, or their representative explaining their position on the agreement. Encourage students with different viewpoints to read their letters aloud. Do students favor a freer trade or protectionist perspective in this situation? Why? Do students feel that the trade agreement benefited the United States? Which Americans benefited the most? Who may have been hurt by the agreement?

2. Distribute copies of **Student Handout 5—Cartoon Analysis.** After students complete the handout, spend some time discussing the cartoon on page 43 and its message. Explain that cartoons represent one person's opinion of the situation and that cartoonists often simplify the message.

Expand this activity by asking students to bring in political cartoons that address trade issues. Discuss the symbolism and meaning of each cartoon in class or challenge the members of the class to identify the symbols, issues, and message of the cartoon. Pin the cartoons to a bulletin board for the duration of the lesson on trade.

3. Much of "Presidents' Day" is devoted to the role of the U.S. government in the economy and to U.S.-Japan trade issues. As students read the chapter, they will find that there is disagreement among Americans and between nations over trade policy and the actions of the government. Americans continue to debate issues regarding the level of government involvement in the economy, the conflict between Congress and the White House over setting policies, the reasons for the U.S. trade deficit with Japan, and the freer trade vs. protectionism question. To allow your students to learn more about these conflicts, organize classroom debates on the following statements:

- The U.S. government should stay out of the American and global economies and let the free market work.
- The president should be allowed to conduct foreign policy—including U.S. trade relations with other countries—without interference from Congress.
- The large U.S. trade deficit with Japan is the result of a Japanese market closed to U.S. goods and service.
- The large U.S. trade deficit with Japan is the result of Japan's skilled labor force, high quality production, and recent economic recession.

- The United States should impose high tariffs on Japanese luxury cars until Japan agrees to make it easier for U.S. car and car parts makers to export to Japan.
- American carmakers should stop complaining about the Japanese and work harder to open new markets for American cars and car parts in Japan.

Organize the debates in the way that works best for you. You may choose to have students debate some or all of the above topic statements or other related statements of your own. The size of your class and the amount of time available will determine the length and number of debates you can hold. Make sure you give all teams and individuals enough time to research and prepare before they debate.

Choose a timekeeper and a moderator to keep the debate moving and orderly. The affirmative side should go first followed by the negative side. Give both sides the same amount of time to state their arguments. Then, each side will have one or two minutes for rebuttal. After the rebuttals, ask either a panel of judges or the class which side they think "won." Debrief each debate with a short discussion of the points made and the lessons learned.

Unit 5—Earth Day: An Environmentalist's Perspective on Trade and the Environment

Student Objectives

After completing this unit, students will be able to:

1. examine the conflict between national environmental law and an international trade organization.
2. conduct a survey on community attitudes about environmental protection and its relationship to global trade rules.
3. compare the ideas of those who believe U.S. law should take precedence over international law and vice versa.

Key Terms

corporate average fuel economy (CAFE) standards
global ecosystem
global warming
Marine Mammal Protection Act
Montreal Protocol
ozone layer
pollution
process standard

Motivator

Give students a few minutes to read "Case Study: Going Beyond U.S. Borders" on page 49 of *Trade Is Everybody's Business*. Then ask them to respond to the following questions:

- What action did the U.S. Congress take to protect the dolphins? (Congress passed the Marine Mammal Protection Act.)
- Why were Mexican fishermen upset at the actions of the U.S. Congress? (The Mexicans claimed the tuna import provisions of the act were trade barriers.)
- What did the GATT panel decide about the U.S. law? (It decided that the law was "GATT illegal" and that U.S. environmental laws could not reach beyond U.S. borders and waters.)
- Why were U.S. environmentalists upset with the GATT panel decision? (They pointed out that GATT had on other occasions permitted bans on products made with prison labor, which is another process standard.)
- What do environmentalists fear most about the GATT panel's decision? (They fear that American democracy could be subverted by international trade law and thus the U.S. environmental movement could be undermined.)

- What problem is illustrated by this example? (The case illustrates the potential for conflict between a nation's environmental laws and the rules of an international body that regulates world trade.)

Student Activities

1. Begin this activity by extending the lesson of the motivator—that there is always the potential for conflict between environmentalists and business people. Emphasize that advocates for each side may have entirely different goals. To illustrate the clash, first ask your students to react to the photos on pages 45 and 51 in "Earth Day." Do they like what they see in these pictures? After looking at them, would students favor preserving the environment over expanding trade and commerce?

Next, ask them to turn to the chart on page 35 in "Presidents' Day." What conclusions can students draw from looking at the numbers on this chart? It should become apparent to them that trade plays a tremendously important and growing role in the economy of the United States. After looking at the photos and the chart, ask them how environmental and trade issues can be balanced. Should the United States relax environmental regulations in the belief that it will stimulate trade and business? Should Americans pressure the WTO to make the GATT more "green" in order to protect the environment? Most importantly, can environmentalists and international trade organizations coexist?

2. Tell students that they are going to survey business owners and other citizens in their community regarding their attitudes about protecting the environment and trade. Distribute **Student Handout 6—Environmental Survey.** You may want to add other questions to the survey that students think are important.

Then, divide the class into two equal groups. Students from one group should interview business owners and operators. Urge them to talk to as many kinds of business people as they can: self-employed retailers and shopowners, small factory owners, wholesalers, warehouse operators, farmers, and so forth.

Students from the second group should interview local citizens who are not earning their livings from business: teachers, homemakers, librarians, and so forth. After students have completed their interviews, discuss the results in class. How does environmental protection affect local businesses? Do people involved in buying and selling of products have different attitudes about protecting the environment than those people who make a living from other sources? Do they agree on anything? Can students draw some generalizations about their community's attitude toward protecting the environment and how it may or may not interfere with their livelihoods? Would respondents from either group approve placing the protection of the nation's and world's environment in the hands of a world trade organization—especially if doing so would stimulate the world's economy?

Expand this activity by asking students to compile the results of the survey and write letters to the editor of a school or local newspaper reporting their findings.

3. While environmentalists believe that Earth's natural resources should be actively protected, others contend that those resources are not in danger and that government environmental regulations should be eased. Students should bring in newspaper and magazine articles that support all sides in this argument. Discuss the articles as they are collected. What evidence supports both sides? Do students believe that protecting the environment is a legitimate concern of the government and reflects the will of the people, or do they think that the government enforces too many regulations? Can these regulations impede trade if they treat U.S. and foreign producers differently? Pin each story to the bulletin board and refer to the appropriate ones as you proceed through the lesson on trade.

4. Begin by asking students to read the sections under "Will Trade Lead to Lax Environmental Standards?" beginning on page 48 of the text. Briefly refocus students' attention to the clash illustrated in the tuna/dolphin case study.

Then, divide the class into groups of three or four who will participate in role-playing activities. Half the groups should prepare arguments from the perspective of environmentalists defending the reach of the U.S. Mammal Protection Act. The other half will prepare arguments from the perspective of the WTO panel representing the Mexican fishermen who claimed that U.S. law represents an unfair trade practice. Each side should be prepared to state its position and why it believes as it does.

After all groups are ready, begin the first role-play. Each role-play will pit one group from the environmentalist side against one group from the WTO side. Each side should state its position and reasons for assuming it. When both sides have spoken, they should attempt to reach some sort of agreement. In settling the case, each side may have to make some concessions. Or, perhaps the sides will find it impossible to reach an agreement. At the end of a set length of time, ask the participants to state the outcome of their role-play and why they reached the conclusion they did.

Conclude each role-play session by discussing with the class what issues came up and the solutions discussed. Should an international trade panel be able to approve or disapprove of U.S. environmental law? Are environmental regulations like the Marine Mammal Protection Act or CAFE standards a covert form of protectionism? What should the U.S. government do if the WTO panel finds that such standards are covert protectionism?

Unit 6—Independence Day: A Citizen's Perspective on Trade and Economic Interdependence

Student Objectives

After completing this unit, students will be able to:

1. discuss international organizations and why some Americans are wary of U.S. membership in them.
2. examine the pros and cons of U.S. participation in the World Trade Organization (WTO).
3. understand how growing international economic interdependence affects American workers, consumers, and stockholders.

Key Terms

economic interdependence
federalism
global village
multinational corporations
sovereignty
United Nations
World Bank
World Trade Organization (WTO)

Motivator

Begin by telling students that a growing number of Americans—from environmentalists to members of militias—are increasingly worried that America's independence and sovereignty are being undermined by organizations like NATO, the United Nations, the World Bank, and most recently, the World Trade Organization. Write the following statement on the board:

International organizations and regulations threaten U.S. sovereignty.

Ask for a show of hands from students who agree with that statement. How many disagree? Some may be undecided. Ask several from both sides why they agree or disagree with the statement. Can students cite examples of instances in which the United States has been constrained by international organizations or their regulations? You might mention that many Americans feared joining the League of Nations in the early 1920s because they were afraid that U.S. troops would be forced to leave home and fight wars in far-off countries. Or that recently, many Americans have expressed fears about U.S. troops being sent under UN command to places like Bosnia or Rwanda. Do students believe that international trade organizations such as the WTO or NAFTA can be fairly compared with the United Nations, the World Bank, or the International Atomic Energy Agency?

Student Activities

1. Ask students to list, on their own paper, global issues and problems they believe threaten U.S. national security. Examples may include global warming, nuclear proliferation, and ethnic conflict.

After they have completed their lists, divide your board into two sections—one under the heading of "unilateral," the other under "multilateral." Make sure students know the meaning of the two terms. Then, ask which global problems identified on their lists can best be addressed by the United States acting alone—unilaterally—and which are best addressed by the United States cooperating and acting with other nations—multilaterally.

After lists are complete, ask the class if the United States should ever act alone in today's interdependent world. What are the pitfalls of being part of a team of nations? Should the United States cooperate with other countries if that means surrendering some authority to international organizations? Can they see the United States cooperating on international trade issues but standing alone on security issues? Or vice versa? Do they think trade issues and security issues and the organizations that deal with them are comparable? Remind students that countries form trade organizations because they think they will gain from the freer exchange of goods between and among members. Nations sometimes fear participation in world security organizations because they are not sure they will be on the winning side. However, all members of international trade organizations believe they will come out winners.

Extend this activity by asking students to clip articles from newspapers and magazines about U.S. cooperation or conflict with other nations in trying to solve a global problem. Pin the articles on the bulletin board. You may wish to focus on one specific issue. Ask students to keep track of the issue. What are the obstacles to international cooperation regarding the specific issue? What is being done, if anything, to work around them?

2. After students have read "Independence Day: A Citizen's Perspective on Trade and Economic Interdependence," distribute **Student Handout 7—Two Views on GATT.** The two opinion pieces are from the editorial page of *USA Today*. Each weekday, this newspaper's editorial board gives an opinion on a controversial topic and asks those with opposing viewpoints to respond. Give students adequate time to read the handout in or out of class. Or, you may want students to take turns reading aloud.

After students have finished reading, lead a discussion about the two opinion pieces. Which article do they think presents the stronger arguments? Why? What are the major points in each article? Why is Lori Wallach of Public Citizen's trade program so worried about the effects of GATT? Does the *USA Today* editorial address her concerns? How does Wallach respond to *USA Today's* arguments?

To extend this activity, ask students to write letters to the editor of a newspaper or magazine stating their positions on free trade agreements with other countries, keeping in mind the arguments made by both sides in *USA Today*. Although U.S. memberships in NAFTA and GATT/WTO were approved by Congress, issues and controversies surrounding that agreement—U.S. sovereignty, trade's effects on jobs, environmental concerns, and so forth—continue to be debated. Ask students to read

their letters in class. Some may want to submit them to school or local newspapers for publication.

3. Distribute **Student Handout 8—Varying Viewpoints** to students. They should read the scenarios on the handout and react to them from various perspectives.

Allow students enough time to complete the handout and then discuss the responses from the varying perspectives. How does one action affect certain groups differently? Challenge students to generate possible compromises among different viewpoints. Could students find common ground between all parties in each situation? What made finding solutions difficult? Do students believe that one trade policy will satisfy everyone?

Student Posttest

At the beginning of the lesson, you may have given your students the pretest to find out what they knew—or did not know—about trade. Now that you have completed the activities, you may be curious to find out if they are now better informed. The posttest is on pages 29-30. Feel free to make copies and administer it to your students. The answer key is on page 39.

Student Pretest and Posttest

Use the following pretest and posttest to:

- assess students' initial attitudes, awareness levels, and knowledge about trade.
- compare results to see how much the opinions of the class change.
- compare individual changes in attitude and knowledge.
- pinpoint overall areas of student strengths and weaknesses to guide you in your follow-up and future teaching strategies.

Administer the pretest to the class before beginning your study of *Trade Is Everybody's Business*. Try to avoid discussing any of the topics in the lesson before giving the pretest so that the results are not biased. Score the pretest, and keep the results confidential until later comparison with the posttest. After finishing your study of *Trade Is Everybody's Business*, administer the posttest in the same manner. Comparing the results of the two tests should help you determine the effectiveness of the lesson.

Both the pretest and posttest contain the same five attitudinal items. Each test also has ten objective test items. These ten items can be answered from information presented in the text. See the answer key on page 39 for correct answers.

PRETEST

Put a check in the column after each item that best describes your position.

	Not Much	*Somewhat*	*Very Much*
1. I consider myself knowledgeable about trade's effect on the U.S. economy.			
2. I understand the concepts of protectionism and free trade.			
3. I am aware of how trade affects the daily lives of Americans.			
4. I understand the basic purposes of the GATT and the WTO.			
5. I believe that the United States should continue to seek out trade relationships with other countries.			

Circle the letter preceding the best answer.

1. Trade with other countries was an important factor in America's rise from a developing nation in the seventeenth century to an industrialized nation today.
   a. true
   b. false

2. If country A can produce a good or service more efficiently than country B, country A has a(n) _____ over country B for that product.
   a. monopoly
   b. comparative advantage
   c. absolute advantage

3. The General Agreement on Tariffs and Trade (GATT) began in the 1970s.
   a. true
   b. false

4. Tariffs and quotas on products make them cost more to the consumer. When such products are necessities, tariffs and quotas most hurt:
   a. high-income families.
   b. low-income families.
   c. middle-income families.

5. The body associated with GATT is:
   a. the International Monetary Fund.
   b. the World Bank.
   c. the World Trade Organization.
   d. none of the above.

6. A tariff:
   a. is another name for the price of a good or service.
   b. limits the quantity of a good that can be imported.
   c. is a tax that a country's government applies to some foreign goods as those goods enter that country.
   d. establishes safety standards on certain imported goods.

7. The North American Free Trade Agreement (NAFTA):
   a. includes the United States, Canada, and Mexico.
   b. includes the United States, Canada, Mexico, and the nations of Central America.
   c. includes all countries in the Western Hemisphere except Cuba.
   d. is part of GATT/WTO.

8. Laws and regulations that are designed to ensure levels of quality, performance, or safety are called:
   a. quality controls.
   b. tariffs.
   c. quotas.
   d. standards.

9. Many labor unions were opposed to the North American Free Trade Agreement (NAFTA) because they believed that the United States would lose jobs to Mexico.
   a. true
   b. false

10. Trade as a share of the gross domestic product (GDP) of the United States has gone up in recent years.
   a. true
   b. false

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POSTTEST

Put a check in the column after each item that best describes your position.

	Not Much	*Somewhat*	*Very Much*
1. I consider myself knowledgeable about trade's effect on the U.S. economy.			
2. I understand the concepts of protectionism and free trade.			
3. I am aware of how trade affects the daily lives of Americans.			
4. I understand the basic purposes of the GATT and the WTO.			
5. I believe that the United States should continue to seek out trade relationships with other countries.			

Circle the letter preceding the best answer.

1. The GATT/WTO is designed to:
   a. settle trade disputes.
   b. open markets.
   c. help improve standards of living for more of the world's people.
   d. do all of the above.

2. Imagine that the U.S. government has just imposed a tariff on Japanese cars. A predictable result of this action might be:
   a. the prices of Japanese cars will rise in the United States.
   b. American car manufacturers will increase their prices slightly, but keep their price lower than Japanese car manufacturers.
   c. Japan will impose a tariff on American goods.
   d. all of the above.

3. Multilateral trade liberalization is an important factor in making more foreign goods at lower prices available to U.S. citizens.
   a. true
   b. false

4. Which of the following is a task performed by the U.S. federal government regarding the economy?
   a. Monitoring markets to ensure a better balance of equity and efficiency.
   b. Providing rules so businesses and workers know what is legal and what is not.
   c. Seeking to balance growth and stability.
   d. Doing all of the above.

5. The World Trade Organization was created to replace:
   a. the North American Free Trade Agreement (NAFTA).
   b. the General Agreement on Tariffs and Trade (GATT).
   c. the Uruguay Round.

6. Consumers who desire the lowest possible prices on the greatest selection of goods generally prefer freer trade.
   a. true
   b. false

7. Since the 1950s, all but which one of the following have occurred?
   a. Trade as a percentage of gross domestic product has decreased.
   b. Real wages have decreased.
   c. U.S. exports have increased.
   d. Trade barriers around the world have fallen.

8. Making global trade agreements more environmentally conscious will not be easy because:
   a. many world leaders are not concerned about the global environment.
   b. the United States has some of the world's weakest environmental standards.
   c. countries have different environmental priorities and strategies.
   d. of reasons stated in both a and c.

9. A limit on the number of imported goods allowed into a country is called a quota.
   a. true
   b. false

10. Trade policy alone cannot solve the world's labor and environmental problems.
   a. true
   b. false

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KEY TERMS AND CONCEPTS

PART I

Read the following definitions and fill in the blanks using key words and terms from the "Introduction."

1. People _____ because no one can produce everything he or she needs.
2. When Americans trade, they are voluntarily exchanging their dollars for _____ or _____.
3. According to the 1995 *Economic Report of the President*, _____ have been responsible for one-third of the U.S. economy's growth from 1986 to 1994.
4. Because Brazilian farmers can grow coffee more efficiently than U.S. farmers, Brazil has a(n) _____ advantage in coffee with the United States.
5. Even though Illinois farmers may be able to grow coffee in greenhouses, they have chosen to grow corn in their large fertile fields and import coffee from Brazil because they have a(n) _____ advantage over Brazil in corn.
6. Goods the United States sells to other countries are called _____; foreign goods American consumers buy are called _____.

PART II

Using all of the words and terms in the following list, write a paragraph explaining why a worker in the American electronics industry may have a conflicting view about trade policy with an American consumer who is going to buy a new VCR.

economic dislocation *exports* *imports* *protectionism* *unemployment*

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THE GATT AND THE WTO

To learn more about the General Agreement on Tariffs and Trade and the World Trade Organization read the section "The GATT and the WTO" on page 11 in *Trade Is Everybody's Business*. Then fill in the blanks in the following sentences with one of the items from the list below.

1947	*1994*	*experts*	*123*	*Uruguay*	*GATT*
Geneva	*veto*	*eight*	*organization*	*trade barriers*	

1. The first GATT was negotiated in _____ in the city of _____.

2. GATT was a multilateral agreement among nations seeking reductions in _____.

3. GATT has sponsored _____ rounds of trade liberalization talks.

4. The most recent round of GATT talks was the _____ Round.

5. The World Trade Organization was created to replace _____.

6. Under the WTO, panels of _____ will mediate trade disputes among nations based on mutually accepted international trade law.

7. As of 1995, the WTO was made up of _____ nations.

8. The U.S. Congress approved the latest GATT accord in _____.

9. No country can _____ a decision of a WTO panel.

10. While the GATT was an agreement, the WTO is an _____.

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GRAPH ANALYSIS: TRADE AND WAGES

Answer the following questions by using the information on the graphs on page 18 and page 35 in *Trade Is Everybody's Business*.

1. From 1973 to 1993, what has been the general trend regarding real wages for men of all education levels? For women of all education levels?

2. Which group suffered the biggest drop in real wages since 1973?

3. About what percentage of U.S. gross domestic product (GDP) did trade constitute in 1960? 1980? 1994?

4. As total trade has become a greater part of America's economy, what has, according to the graphs, happened to real wages? What conclusion could you draw about trade's effect on incomes in America?

5. Do you believe trade is to blame for the stagnation of wages? Why or why not? What other factors besides increased trade may have contributed to wage stagnation?

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A NEW TRADE POLICY

The U.S. government has just announced a new trade policy on foreign cars:

- The government will impose a tariff of 10 percent of the car's price.
- Cars imported to the United States must have both driver's-side and passenger's-side airbags.

In the space under each item, write how you think this person will react to this new policy and how it will affect him or her.

1. A middle-income family of six needs a new car. The head of the family is searching for a reliable and safe car at the lowest possible price.

2. A union autoworker in Detroit, worried that she might be laid off, has been trying to save money and has not made any unnecessary purchases.

3. An executive at a large U.S. automobile plant is preparing the company's annual report to its stockholders as the new regulations are announced.

4. A foreign automobile company makes safe, reliable, and affordable cars, which have been very popular in the United States. The company's president needs to maintain the U.S. market to ensure the company's success.

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CARTOON ANALYSIS

Study the cartoon on page 43 of *Trade Is Everybody's Business* and then answer the following questions.

1. Where is the setting of the cartoon? Why is the setting significant?

2. What is the salesperson about to do? Why?

3. Would this person favor freer trade or protectionism? Why?

4. What is the message being expressed by the cartoonist?

5. Imagine yourself as a Cadillac salesperson in a dealership across the street from this scene. What might be your reaction to the trade agreement between the United States and Japan?

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ENVIRONMENTAL SURVEY

Interview one man or woman in your community who owns or works in a business that is affected by governmental environmental regulation and one man or woman who is working in a field not directly affected by environmental regulation. Record interviewees' responses below and be prepared to draw conclusions from their perspectives.

1. Do you believe that the U.S. government should maintain and enforce regulations that protect the environment? Why or why not?

2. What environmental regulations, if any, affect you or how you run your business? Can you give an example?

3. Are you or your business helped or hurt by environmental regulations? In what ways?

4. Would you favor international trade agreements that may weaken or eliminate U.S. environmental regulations but help your business or other businesses in your community? Why or why not?

5. Should Americans be satisfied that U.S. environmental laws are sufficient for protecting the environment or would it be better to develop global environmental laws? Do you think developing global environmental laws is possible? Why or why not?

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TWO VIEWS ON GATT

The following excerpts from editorials were printed in *USA Today* on July 21, 1994. The first was written by the *USA Today* editorial staff. The second was written by Lori Wallach, director of Public Citizen's trade program. Public Citizen is a consumer advocacy organization founded by Ralph Nader in 1971.

Trade Agreement Is Good Deal for U.S. Consumers

The new General Agreement on Tariffs and Trade, agreed to by the Clinton administration last fall, will cut tariffs around the world by hundreds of billions of dollars.

Tariff cuts will cost the [U.S.] treasury $12 billion in revenue but save consumers money—an average $48 each in lower prices for imported goods and the domestic goods that must compete with them.

Meanwhile, U.S. businesses will face fewer barriers abroad for wares from airplanes to soybeans. The boost to their sales will add more than 1 million jobs and add $50 billion a year to the U.S. economy by 2003, $200 of growth for every American.

Some critics claim that the treaty will overturn federal and state health, environmental, and safety laws. How? By giving GATT more power to rule that U.S. laws unfairly restrict trade. Even if GATT ruled against the United States, the ruling could allow the complaining party to raise tariffs on U.S. goods only enough to cover its alleged losses, no more.

The treaty puts a limit on trade sanctions and prevents disputes from escalating into trade wars. Congress and state legislatures remain in charge of all our domestic laws.

The new GATT cuts consumers' costs. It opens markets. It adds jobs. It's too good a deal to pass up.

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This Is a Bum Deal for the United States

The WTO (World Trade Organization) could erode U.S. sovereignty and democracy and undermine environmental, consumer, fair tax, and other laws.

Proponents dwell on speculative, hypothetical economic benefits. But the guaranteed consequence of approving it is establishment of the deeply disturbing WTO, in which tribunals of three faceless bureaucrats would judge foreign challenges to some of our most important laws.

Congress would be required to kill laws declared WTO-illegal or we would face international economic sanctions. There would be no appeal.

And unlike other powerful international bodies, WTO's decisionmaking would be one-nation, one-vote, without sovereignty safeguards such as our veto at the United Nations.

Major U.S. trading partners (the European Union, Japan, Canada) have openly published lists of U.S. laws they hope to attack, including meat inspection, food labeling, pesticide limits, the nuclear nonproliferation act, auto fuel efficiency standards, state tax laws, recycling laws, even electric shaver safety regulations.

Sounds too outrageous to be possible, except proponents, mainly the country's biggest corporations, hope a Congress fixated on health care will OK the deal. Some speculate the rush is to blur the details.

Courtesy of Lori Wallach. Reprinted with permission.

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VARYING VIEWPOINTS

Read the following scenarios and answer the questions that follow.

1. A U.S. clothing company, citing increasing labor costs, plans to take its factories to a developing country where it can pay much lower wages. How will this move affect U.S. workers? How will this move affect U.S. consumers?

2. The United States imposes a tariff on imported screwdrivers. Will American consumers who buy screwdrivers support this action? Why or why not? Will American workers who make screwdrivers support this action? Why or why not?

3. The United States government imposes quotas on Japanese cars. How will consumers who want to buy Japanese cars react to this news? How will U.S. autoworkers respond to this action? How will stockholders in General Motors react to this action?

4. Japan agrees to buy more auto parts from the United States. What effect will this agreement have on American autoworkers?

5. The United States imposes an economic embargo on Iraq, a major world supplier of crude oil. What will happen to the price of oil as a result of this action? Why? How would the average American consumer respond to this action? How would a Texas oilfield worker react?

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Answer Key

Pretest

1. a
2. c
3. b
4. b
5. c
6. c
7. a
8. d
9. a
10. a

Posttest

1. d
2. d
3. a
4. d
5. b
6. a
7. a
8. d
9. a
10. a

Student Handout 1

1. trade
2. goods, services
3. exports
4. absolute
5. comparative
6. exports, imports

Student Handout 2

1. 1947, Geneva
2. trade barriers
3. eight
4. Uruguay
5. GATT
6. experts
7. 123
8. 1994
9. veto
10. organization

Student Handout 3

1. Since 1973, real wages have fallen for men of all education levels. Most women workers have seen small gains during the same time period.
2. Male high school dropouts
3. In 1960, trade constituted 9.3 percent of the gross domestic product; in 1980, that figure rose to 21.2 percent; and in 1994, trade was 22.7 percent of GDP.
4. As trade has increased as a percentage of GDP, real wages have become stagnant or have decreased. Many argue that trading with other nations has therefore been harmful to the average American worker. Others respond that advancements in technology and more productive workers are just as responsible for wage stagnation.
5. Answers will vary. Other factors may include changes in technology, improvements in productivity, and increased competition among the world's workers.

Student Handout 4

1. If the family wants to buy an imported car, they will have to pay more for it than before. However, they may have to pay more for a domestic car as well, because domestic manufacturers may feel comfortable raising their prices now that foreign car prices are higher. The head of the family may dislike the added tariff but approve of the airbag requirements.
2. The union autoworker may now feel that her job is more secure because of the tariff on foreign cars. Thus, she may begin to spend more of the money she had been saving.
3. A domestic automobile executive will likely be happy with the new tariff, because the price of foreign-made automobiles will probably rise and his company should be able to sell more U.S.-made cars. However, if his company has invested heavily in the foreign carmakers that are affected by the tariff—as many U.S.

automobile companies have—the stockholders and company executives may be concerned about profits.

4. A foreign car company may be hurt by the tariffs, since the price of their product will probably increase. The company may have to try to keep prices as low as possible and take smaller profits or they may decide to ship only luxury, high-profit cars to America.

Student Handout 5

1. The setting of the cartoon is a Japanese luxury car dealership in the United States. It is significant because in 1995 the Clinton administration proposed a 100 percent tariff on Japanese luxury cars if Japan did not open its markets to American cars. U.S. dealers in Japanese luxury cars were afraid the tariff would destroy their businesses.
2. The salesperson is about to commit *hara-kiri*—a form of ritual suicide practiced in Japan—because selling cars that are now much more expensive due to the 100 percent tariff makes his job much more difficult.
3. This person would favor freer trade because the price of his cars would be lower and therefore easier to sell.
4. The effect of a 100 percent tariff would economically hurt Americans who are employed in businesses where Japanese-made luxury cars are sold and serviced. Wealthy U.S. consumers would also pay more for their luxury cars.
5. A Cadillac salesperson in a dealership across the street would likely favor a tariff on Japanese luxury cars in the hope that consumers would now be more likely to buy his American-made luxury cars. The prices of many of his Cadillac models would now be much lower than the Japanese-made Lexus.

Student Handout 8

1. Some American workers—especially those employed at the company that is going to move—will lose their jobs. Other U.S. workers, however, may gain jobs in the importing business as those foreign-made garments are brought to U.S. shores. Consumers will be helped if prices of foreign-made garments are lower. Lower prices may also force U.S. companies to become more productive and more competitive. Thus, they may be able to charge less, thereby helping the consumer.
2. Consumers would not support tariffs because the tariff may cause a rise in prices. American workers will support this action because their company should be able to sell more U.S.-made screwdrivers and may be able to charge more.
3. Buyers of Japanese cars will not like the quotas placed on those cars; they will have to pay higher prices. U.S. autoworkers will be happy because American consumers should now buy more domestic cars. G.M. stockholders may approve; their company's future seems to be looking up. However, if General Motors has invested heavily in Japanese car companies, G.M.'s profits from its overseas investments could drop.
4. A Japanese agreement to buy more U.S.-made auto parts improves the demand for those parts, thereby increasing the number of jobs for autoworkers in America.
5. Because the availability of foreign oil will decrease as a result of the embargo, the demand on other oil producers (both domestic and foreign) will increase, leading to higher prices. U.S. consumers will not like the higher prices, although they may approve politically of the embargo on Iraq. A Texas oilfield worker would like the embargo on foreign oil, because such action will probably lead to increased domestic oil exploration and production and higher oil prices.

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